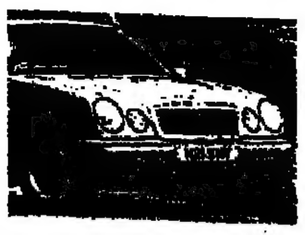
FINANCIAL TIMES



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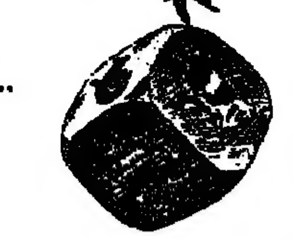

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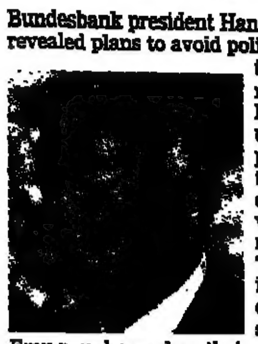
Bundesbank chief outlines European currency plan

Bundesbank president Hans Tietmeyer (left) has revealed plans to avoid political and currency turbulence between members of the planned European monetary union and other European Union countries by taking currency change decisions away from individual countries. Mr Tietmeyer has suggested a "supranational authority" to oversee rates changes, relative to the single currency, of non-Emu members when their currencies come under pressure. Page 10 and Lex; Editorial Comment, Page 9; Emu ins and outs, Page 2



Suez, the French flagship industrial and financial holding group, said it was on course for a return to profitability this year after reporting losses of FFr4bn ($780m) for 1995. Page 11; Lex, Page 10

Airbus wins $1.5bn Chinese order: Chinese prime minister Li Peng signed orders to buy up to $1.5bn of Airbus aircraft, the first significant breakthrough for the European consortium in China, which has been dominated by Boeing of the US. Page 10

Turkish coalition urged to stop fighting: The head of Turkey's main business organisation called on the two parties in the new coalition government to stop arguing and deal with the country's mounting problems. Page 3

Nylon groups in Asian venture: BASF of Germany and DuPont of the US, two of the world's leading nylon manufacturers, have agreed a $750m joint venture in Asia to manufacture 8 per cent of the world output of nylon raw materials. Page 12

Serbs win seat on aid talks: The Bosnian Serbs were given permission to attend an international donors' conference this weekend on aid for reconstruction. Page 3

Svedala Industri, the Swedish mining and construction equipment manufacturer, launched a SKr1.83bn ($276m) takeover bid for Finnish engineering group Tampella Corporation. Page 12

German unemployment near record: German unemployment fell by 129,000 to 4.14m last month, from February's record 4.27m, prompting calls for the government to abandon budget plans and borrow more to boost the economy. Page 2

Republican convert misses nomination: US congressman Greg Laughlin, a Democrat who turned Republican, lost his bid for nomination to represent his new party in the 14th congressional district of Texas. Page 3

Russia reassures on nuclear arms: President Boris Yeltsin hinted Russia would adopt a conciliatory position when leaders of the G-7 industrial nations meet in Moscow next week to discuss nuclear security issues. Page 2

Japanese surplus falls 38%: Japan's current account surplus fell 38.8 per cent to ¥745.9bn ($6.88bn) in February, compared with a year earlier. Page 5

US computer chip sales down: US semiconductor sales in North and South America fell about 3 per cent to $4.16bn during March from February sales of $4.29bn, signalling an industry-wide slowdown. Page 4

Brussels plans $1.25bn jobs boost: The European Commission proposed an Ecu1bn ($1.25bn) loan guarantee scheme for small businesses, aimed at creating about 30,000 jobs each year. Page 2

Hong Kong tensions prompt meeting: Hong Kong's chief secretary Anson Chan will meet China's top official responsible for the British territory next week over increasing tension concerning Hong Kong's handover to China next year. Page 5

Andreotti trial halted: A judge halted the seven-month-old trial in Palermo, Sicily, of Italian former prime minister Giulio Andreotti on Mafia charges and ordered a new trial to start next month.

Africa goes nuclear-free: Africa will join nuclear-free zones Latin America and the South Pacific when 53 African states and the nuclear powers sign the Treaty of Pelindaba in Cairo today.

Israeli soldier killed in attack: An Israeli soldier was killed and three were wounded in south Lebanon when Hizbollah fighters fired on their outpost with mortar bombs.

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,586.91	(+6.50)
NASDAQ Composite	1,116.87	(+7.72)
Europe and Far East		
CAC40	2,093.94	(+12.23)
DAX	2,530.02	(+26.76)
FT-SE 100	3,767.4	(+8.8)
Nikkei	21,791.7	(+47.53)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.072%
Long Bond	89½
Yield	6.857%

■ OTHER RATES

UK: 3-mo Interbank	6 1/32%	(same)
UK: 10 yr Gilt	95 13/32	(95⅝)
France: 10 yr OAT	105.03	(104.72)
Germany: 10 yr Bond	96.9	(96.78)
Japan: 10 yr JGB	98.551	(98.373)

■ NORTH SEA OIL (Argus)

Brent 15-day	$22.60	(21.41)

■ GOLD

New York: Comex		
June	$397.5	(397.1)
London:		
close	$396.2	(396.8)

■ DOLLAR

New York lunchtime		
£	1.506	
DM	1.50275	
FFr	5.1065	
SFr	1.221	
Y	108.535	
London:		
£	1.5165	(1.525)
DM	1.4997	(1.4918)
FFr	5.0978	(5.0778)
SFr	1.2165	(1.2056)
Y	108.465	(108.23)

■ STERLING

DM	2.2743	(2.275)
Tokyo $ close		Y 108.3

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lv130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (mTand)	Es240	Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

Doubts over Swiss bank merger

Initial talks between CS Holding and UBS prompt fears of mass job losses

By Ian Rodger in London and Andrew Fisher in Frankfurt

Scepticism and fears about possible job losses have greeted the revelation that Switzerland's two largest financial institutions had exploratory discussions about merging.

There were also indications that the board of Union Bank of Switzerland would reject the approach from CS Holding, the group built around the Credit Suisse bank. UBS's board will discuss the idea at a meeting in Zurich today and will issue a statement this evening.

The merger of the two institutions would create the world's second largest bank after Bank of Tokyo-Mitsubishi Bank of Japan, with combined assets of SFr800bn ($667bn).

However, it would also lead to substantial redundancies in overlapping businesses, especially in Switzerland and to a lesser extent in London.

"We give very little credence to this proposal; the synergies are not that evident," Mr Pierre Tissot of Geneva bankers Lombard, Odier, said.

UBS bearer (ordinary) shares fell SFr24 to SFr1,293 and CS shares dropped SFr1.25 to SFr113.75 yesterday after surges on Tuesday when CS said it would issue a statement following a newspaper report about the merger discussions.

CS said it envisaged a merger "between two companies of equal stature" but analysts agreed that CS would be the main beneficiary, taking advantage of UBS's greater financial strength.

UBS is one of only a few international banks enjoying triple A ratings on its debt from all the main rating agencies. Standard & Poor's, one of those agencies, yesterday reaffirmed its ratings, observing that "the likelihood of a merger occurring soon is insufficient to warrant" putting them under review.

Steep mountain to climb .... Page 9
World stock markets Page 28

Swiss newspapers and radio and television stations concentrated heavily on the story yesterday, with the emphasis of the commentary being on the political unacceptability of the probable job losses.

Some estimates put the losses as high as 10,000, which would be hard to absorb with the Swiss unemployment rate at a postwar record of 4.6 per cent. Zurich's Tages Anzeiger, which broke the story, said CS Holding was practising "nasty blackmail".

In the City of London, where both banks have large wholesale operations, there was also anxiety about job losses. UBS, which employs 2,500 in London, admitted there were sizeable overlaps with CS, which employs about 4,000 in the City.

By coincidence, Mr Mathis Cabiallavetta, the UBS chief executive, had a meeting with financial analysts in Zurich yesterday. According to those present, he said the board would only decide today whether or not to continue thinking about the idea.

Bankers' reactions were also sceptical. An official of one big Frankfurt-based bank, said: "If it happens, it will be a sensation. It's still not certain that it will, but this will certainly unleash a new discussion about Germany's banking structure."

Big German banks, led by Deutsche Bank, have been moving deeper into the very areas in which a merger of CS Holding and UBS would add a strong new competitive element – global investment banking, asset management and securities dealings. "This could change the competitive situation enormously," the official added.

Another Frankfurt banker said the combination of CS's aggression and innovation with UBS's financial strength would represent "a new wind" blowing through the European banking scene. "It is not just the sheer size of such a deal but the direction which the merged bank would take," he said.

Mitsubishi sued in US over sex harassment allegations

By Michiyo Nakamoto in Tokyo

The US arm of Mitsubishi Motors, the Japanese carmaker, is being sued by the US Equal Employment Opportunity Commission over the alleged sexual harassment of several hundred women employees.

News of the US case, which will also put a spotlight on the treatment of women in large Japanese companies in Japan, yesterday prompted a Y3 fall in the share price of Mitsubishi Motors to Y953, while Tokyo's Nikkei index rose 47.53 on the day to close at 21,791.7.

The US commission filed a lawsuit on Tuesday in Illinois against Mitsubishi Motor Manufacturing of America (MMMA), alleging that it condoned sexual harassment and discrimination against the women.

"This is a big employer, which for years has permitted gross and shocking sexual discrimination to be perpetrated upon its female employees," claimed Mr Paul Igasaki, vice-chairman of the commission.

The case involves several hundred women employees who charge that male colleagues demanded sexual favours and called them obscene names, and that promotions were denied when those favours were refused.

The damages being sought amount to as much as $300,000 per person. The commission said at least 100 female employees were interviewed about alleged harassment, and that as many as 700 workers may be eligible for damages. The company employs 4,000 workers and about 20 per cent are women.

Mitsubishi Motors in Japan said it had received a report about the case from MMMA, which has denied the allegations.

"We have been told that there has been no unfair treatment due to sexual discrimination or condoning of sexual harassment by employees at MMMA. We trust that that is true," a Mitsubishi representative said yesterday. "It is a local company and it is important for the issue to be handled locally."

According to the charges, most

Continued on Page 10

Thatcher's PR man goes to work on Yeltsin

By Diane Summers in London and John Thornhill in Moscow

Sir Tim Bell, Baroness Thatcher's favourite public relations man, is advising Mr Boris Yeltsin, the Russian president, in the run-up to June's presidential elections.

Sir Tim was in Moscow two weeks ago and is thought to have been behind a programme on NTV, the independent television channel, a few days ago which showed Mr Yeltsin's wife, Naina, extolling her husband's virtues.

In an interview reminiscent of the TV glimpses into Lady Thatcher's domestic life at Number 10 Downing Street, Mrs Yeltsin talked of how the president washes up and cooks Siberian dumplings.

Under Sir Tim's tutelage, Lady Thatcher, in her early days as premier, adapted her dress, make-up and even her voice to enhance her authority, particularly for the television cameras.

The UK trade magazine, PR Week, in a report published today, says Sir Tim's agency, Lowe Bell, worked with the Russian prime minister Mr Viktor Chernomyrdin's Our Home is Russia party during the parliamentary elections in December.

Sir Tim, who declined to comment on the report, is also thought to have worked for NTV, whose president, Mr Igor Malashenko, was recently appointed head of the information department in Mr Yeltsin's electoral campaign. It is likely that it is through this route that Sir Tim is working for Mr Yeltsin, rather than having a direct contract with the president.

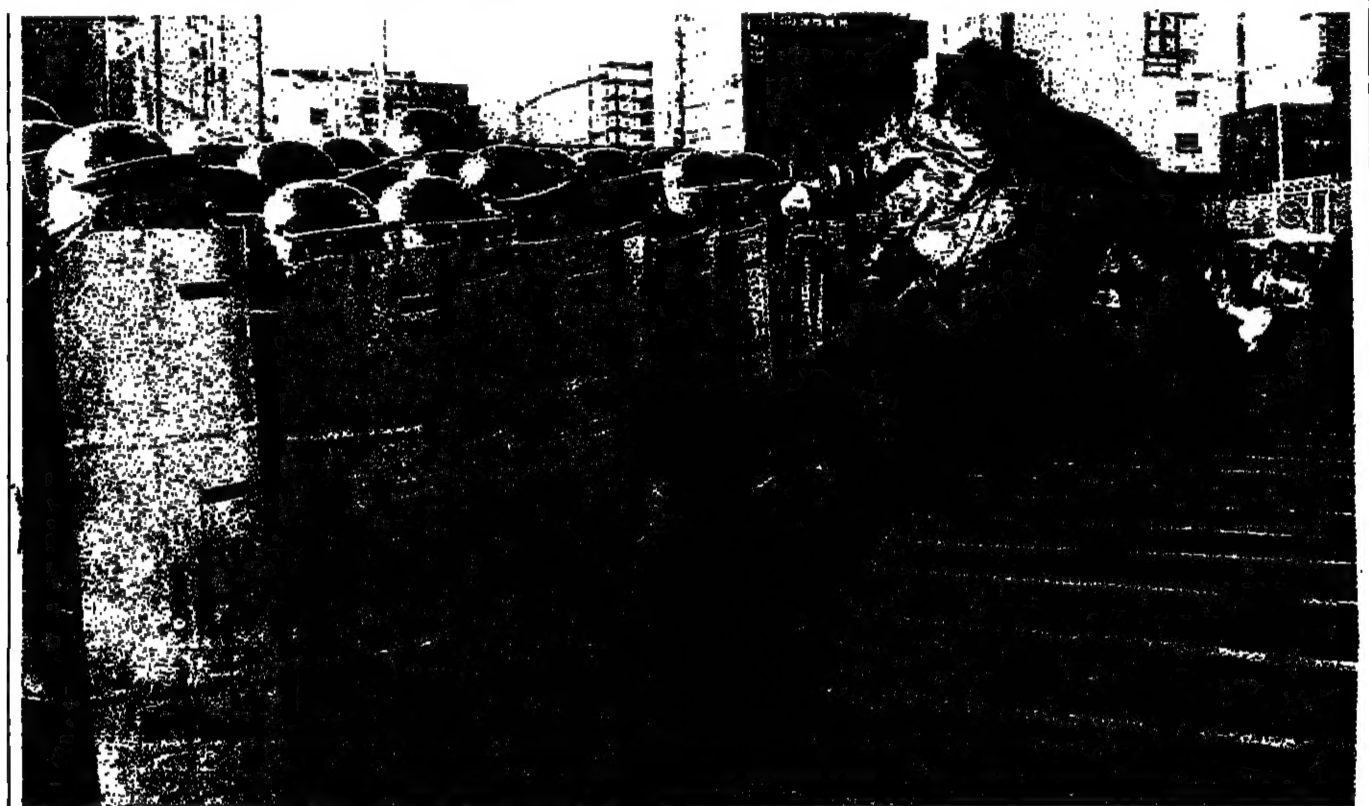
The latest opinion polls suggest Mr Yeltsin has been gaining support this year thanks to some well-orchestrated campaign gestures.

He has sacked unpopular government ministers, made strenuous efforts to pay the wage arrears of government workers and pensioners and floated a peace plan to resolve the conflict in Chechnya.

Opinion polls suggest Mr Yeltsin's support has been rising to about 18-21 per cent of the vote compared with 25-27 per cent for Mr Gennady Zyuganov, the Communist party leader. The other leading presidential candidates are languishing at around 10-12 per cent.

If that outcome were replicated in the first ballot on June 16, then Mr Yeltsin and Mr Zyuganov would face each other in a head-to-head poll in early July.

But Mr Zyuganov this week questioned the impartiality of some of Russia's polling organisations and condemned the media for pandering to Mr Yeltsin and providing one-sided coverage of the election campaign.



A South Korean student delivers a flying kick to a line of riot police during a demonstration that turned violent in Seoul.

Thousands of marching students defied teargas to demand the resignation of President Kim Young-sam after the long-delayed funeral of a colleague who died in a protest. South Koreans go to the polls today and the government expects a setback.

Meanwhile, officials have told the country that it may face a crisis from North Korea's continued aggressive stance, warning of a possible naval blockade.

Further reports, Page 5 Picture: Reuter

European vets dash Britain's hopes for easing of beef ban

By Neil Buckley in Brussels and George Parker and Deborah Hargreaves in London

UK hopes for a partial lifting of the worldwide ban on exports of beef and beef products were dashed last night after an overwhelming majority of European Union veterinary experts refused to ease restrictions on gelatine and tallow.

The EU's standing veterinary committee did not vote on the issue, after it became clear there was no support for lifting the ban.

This was in spite of a recommendation from the European Commission to accept advice from the World Health Organisation that properly processed gelatine and tallow were not at risk of contamination with BSE, or mad cow disease.

"Member states are linking any easing of the ban very clearly with BSE eradication and control proposals from the UK," the Commission's agriculture spokesman said.

The result bodes ill for British hopes of an early lifting of the blanket ban, which covers all exports of beef and products derived from beef. It was imposed on March 27 after the UK said it had found evidence of a possible link between BSE and a fatal human brain disease.

The Ministry of Agriculture said the decision was "bitterly disappointing". It caused anger among Tory MPs, who insisted the ban on all beef products should be lifted immediately.

Sir Michael Spicer, a leading Tory Eurosceptic, said: "This ban is probably illegal and it should certainly be challenged in the courts. It is about time now that we stopped allowing ourselves to be kicked around by EU agriculture ministers and their advisers like a football."

The government is now unlikely to see any easing in the worldwide ban before the end of the month when it is due to present a selective slaughter plan for herds most affected by BSE to the Commission.

Mr Douglas Hogg, UK agriculture minister, has said he will resist a wide slaughter plan demanded by the EU, but UK agriculture ministry officials conceded yesterday Britain would probably have to implement a policy of selective slaughter.

The ministry is drawing up plans for slaughtering groups of cattle born after the ban on contaminated feed was introduced in 1988, but which later contracted BSE.

Sir Jerry Wiggin, chairman of the House of Commons all-party agriculture committee, agreed the ban was "unreasonable and unjustified", but said Britain should be wary about threatening legal action on the grounds that it could jeopardise a negotiated settlement.

The safety of gelatine, used in foods such as jelly, yoghurt and sweets, and tallow, used in soaps and candles, as well as other cosmetics containing ingredients derived from beef, is now expected to be discussed by the EU's pharmaceutical committee in London on Monday.

Farmers may sue, Page 6

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NEWS: EUROPE

Brussels promotes loan scheme for jobs

By Neil Buckley in Brussels

The European Commission yesterday proposed an Ecu1bn ($1.25bn) loan guarantee scheme for small businesses, aimed at creating about 30,000 jobs across the EU each year.

Mr Yves-Thibault de Silguy, economic and monetary affairs commissioner, said the scheme aimed to make it easier for small businesses – one of the most important sources of new jobs – to obtain loans at lower interest rates.

Such companies, especially those which employed fewer than 50 people, were often considered high credit risks, and were unable to offer the forms of security required by banks. As a result, they either failed to get loans, or paid higher interest rates.

Finance ministers need to approve the scheme, christened Elise (European Loan Insurance Scheme for Employment), and are likely to do so since it falls within existing budgets.

Under the scheme the Luxembourg-based European Investment Fund would guarantee 50 per cent of the value of loans to small companies – 75 per cent where the loans involve cross-border projects – up to a total of Ecu1bn per year.

Preference would be given to companies with fewer than 50 employees, and only those proposing to create new jobs would be eligible. There is no regional preference.

Loans would be managed and granted by intermediary financial institutions with a "solid track record" of lending to small businesses. The European Investment Fund would not guarantee individual loans, but the financial institutions' loan portfolios.

The Commission proposes to finance the premiums to guarantee the loans, using funds from the EU budget. Up to Ecu25m has already been provided for employment and growth spending in the 1996 budget.

Mr de Silguy said it was difficult to forecast how many jobs might be created by the scheme, but at least 30,000 per year was the objective.

The European Investment Fund, which was set up after the Union's 1994 summit in Edinburgh, specialises in loan guarantees for trans-European energy and transport networks, and for small and medium-sized enterprises.

It has authorised capital of Ecu2bn, 30 per cent subscribed by the European Union, 40 per cent by the European Investment Bank, and the rest by 78 financial institutions from member states.

Mr de Silguy said the Elise scheme would form an important part of the "confidence pact" for employment proposed last year by Mr Jacques Santer, the commission president, aimed at lowering the Union's 11 per cent unemployment rate.

Mr Santer's campaign to lower EU unemployment also involves attempting – so far unsuccessfully – to persuade member governments to allow $2.5bn in surplus Union funds to be diverted to support large projects such as construction of trans-European networks.

Tietmeyer offers solution to the problem of changing parities

Finding way through Emu ins and outs

Mr Hans Tietmeyer: Suggests putting future European central bank chief at heart of parity change process Ralf Braum

For someone whose working hours are devoted largely to preparing his own demotion and scaling back the importance of the institution he heads, Mr Hans Tietmeyer, president of the Bundesbank, gives no impression of relinquishing control.

Mr Tietmeyer, who will be 65 in August, is roughly halfway between taking up one of the most powerful non-elected offices in continental Europe in October 1993 and the time when the Bundesbank's all-pervading monetary influence will be supplanted by the European central bank if Emu starts punctually on January 1, 1999.

Yet the man widely held to be mounting a rearguard action against the single currency and the disappearance of the D-Mark was only too happy to spend much of an interview explaining how Emu should function when not all members of the European Union will be in at the beginning.

The informal meeting in Verona of European Union finance ministers and central bank governors at the weekend will concentrate on this very question of Emu's "ins" and "outs". Mr Tietmeyer stated in detail how it should be solved in a way that both ensured the stability of Emu and left the way open for others to join.

For Mr Tietmeyer, both are equally important. A solution should help the "outs" become members of Emu: "The basic aim has to be the achievement of greater convergence between countries that join European monetary union from the start and those which stay out." But it should also shield Emu countries from inflationary pressures caused by exchange rate instability among non-members. "It is not right to expect the euro-area to stay stable, while sacrificing its stability on the altar of a particular exchange rate."

The best solution, in his view, would be a more efficient, less politicised way of changing parities of non-Emu members by giving the president of the future European central bank a key role in triggering the process.

In the past, parity changes were often delayed too long because they involved national pride. By putting the president of the ECB at the heart of this process, the proposals envisage an enhancement of his position beyond that foreseen in the Maastricht treaty.

"He will be, so to speak, the advocate of stability in the whole system," said Mr Tietmeyer.

National governments outside what Mr Tietmeyer calls the "euro-area" would still take their own decisions on whether to devalue or revalue, if necessary. The ECB president – "a supranational figure with a supranational role" – would be in charge of a system of "regular surveillance" which would show when parity changes should be considered by non-Emu countries.

"I am not calling for a system of indicators with quasi-automatic results," Mr Tietmeyer said. But economic indicators would be monitored closely, with the ECB president nudging countries in the direction of parity change discussions when necessary. "That could defuse the problem of political prestige."

To make the "ins" and "outs" system work, it had to be asymmetrical, Mr Tietmeyer asserted. "If the inner [Emu] core is the more stable, the others must move towards this standard." Following the correct domestic policies would be the best way, with exchange rate intervention another means. But, recalling how the European monetary system nearly succumbed to currency upsets in 1992 and 1993, he said: "I personally do not set much store by intervention."

While believing that non-Emu countries should have fixed parities against the euro – though some could float for a transitional period – he wants the relationship between the "euro-area" and the "outs" to be flexible. "If parity changes are finally needed, they should occur in good time – and I mean in good time." Because the ECB, its president and directors, would be "non-national to a considerable degree and not attached to any domestic policies," the task of helping to bring these about would fall naturally to the Frankfurt-based institution.

Mr Tietmeyer's insistence on stability for countries inside and outside Emu is also reflected in his, and his colleagues', distaste for short-termism. Thus, while the Bundesbank is prepared, ahead of Emu, to consider dropping its opposition to the Bonn government falling in line with other EU countries and issuing short-term debt, it is not ready to jeopardise the financial stability built up over years.

"We think it is right that the longer term culture should be maintained," he said. "We still consider the dominance of a short-term mentality [in financial markets] to be problematic."

He also stressed that the Bundesbank would not veer from following money supply trends in deciding interest rate moves. It would see if there was room for further cuts in the discount and lombard rates, now 3 and 5 per cent respectively, but this would depend on M3.

Yesterday, it said this broad monetary aggregate grew at an annualised rate of 12.8 per cent in February, marginally higher than the provisional figure. However, Mr Tietmeyer said: "Taking a longer term, view, we are in the corridor [the 4-7 per cent target range for M3 this year]. Now, we will see how things develop further."

On the other hand, "there is no question of an interest rise in the foreseeable future". The Bundesbank would not be rattled by jitters on the US bond market. "We do not orient our policies towards the US business cycle, but to ours."

This was his only reference to developments outside Europe. He preferred to discuss Emu and his expectation that Germany's economy would recover this year. At a time when the country was having trouble meeting the Maastricht criteria on budget deficits, he stressed that Emu would require hard work by all potential members if it was to succeed.

"I am not arguing for a postponement," he said referring to his recent comments that a delay beyond January 1, 1999 might be better than a later derailment.

"If Emu works, it will be of great benefit for Europe, economically as well as politically. But it is not a panacea. My message is that we have to do something to make it happen and not believe it is heaven-sent. We must work hard for it." If the Bundesbank is to lose its power, Mr Tietmeyer is determined to ensure its legacy survives.

Andrew Fisher and Peter Norman

Membership of new ERM might not be compulsory

EU member states which do not join a single currency should not necessarily be compelled to become members of a new exchange rate mechanism, Mr Yves-Thibault de Silguy, the European monetary affairs commissioner, hinted yesterday, writes Neil Buckley in Brussels. The priority for EU finance ministers meeting in Verona this weekend was to establish the broad principles for a "new monetary system" to replace the current exchange rate mechanism, he said. It was not possible to say whether membership of such a system would be compulsory until its workings had been determined.

Mr de Silguy suggested membership of a "flexible" system, with broad and differing fluctuation bands for different currencies, could be mandatory. But if a more "binding" system, with narrower bands, were adopted, membership might be "optional".

However, Mr de Silguy insisted it was vital for all 15 member states to co-operate in drawing up the rules for the new system. "All of them must play together as a team. We don't want to have some just sitting by and watching."

Yeltsin hints at nuclear concessions

By John Thornhill in Moscow

President Boris Yeltsin hinted yesterday that Russia would adopt a highly conciliatory position when leaders of the Group of Seven industrial nations gather in Moscow next week to discuss nuclear security issues.

He told a meeting of his security council that Russia would be prepared to accept wider international scrutiny of its nuclear facilities and encourage greater co-operation between all eight countries' security services to prevent the smuggling of nuclear materials.

"Russia is making serious efforts to ensure the security of the nuclear energy sector. But these issues cannot be properly addressed solely through national programmes," he said.

Mr Yeltsin said he planned to invite foreign experts to assess the condition of Russia's oldest nuclear power plants and would allow the International Atomic Energy Authority oversight of a nuclear storage site at the Mayak plant in the Urals. This plant, being built with US help, will contain 40 per cent of all the country's weapons-grade plutonium.

The uncertain condition of Russia's vast nuclear arsenal has caused increasing alarm around the world – especially following a spate of nuclear smuggling incidents since 1993.

Much of its estimated 1,200 tonnes of fissile material is kept in poorly protected storage patrolled by demoralised and underpaid guards, sparking fears that terrorist groups or states could steal the components needed to build a nuclear bomb.

The US government is spending about $800m a year to help Russia secure its nuclear facilities and decommission its nuclear weapons. But further western initiatives are expected at next week's summit.

At its height in the mid-1980s, Russia's nuclear arsenal consisted of 45,000 weapons, but it has been reduced at a rate of about 2,000 a year since 1986.

Despite Mr Yeltsin's rhetoric, the Russian authorities have in practice proved obstructive to some western aid initiatives. The atomic energy ministry, which was once at the heart of the Soviet Union's secret state and continues to oversees the bulk of Russia's nuclear storage sites, has been deeply sceptical of western intentions in offering assistance.

The authorities have also clamped down fiercely on western environmental organisations trying to monitor radioactive leakage from sunken nuclear submarines in the Barents Sea.

Mr Yeltsin vowed to complete the withdrawal of all remaining nuclear weapons in the Soviet arsenal from Ukraine and Belarus by the end of the year despite suggestions that Moscow might try to link this process to broader European security issues.

Some military officials in Moscow and in Minsk, capital of Belarus, had been pressing for Russia to drag its heels on weapons withdrawals unless Nato slowed its plans to expand eastwards. But Poland's President Alexander Kwasniewski, who was in Moscow yesterday for talks with Russian leaders, said he was confident Russia would remove all nuclear weapons from Belarus as previously promised. But he reaffirmed Poland's determination to join Nato despite Russia's objections.

Russia Survey: Separate Section

Russian oil shares deal defended

By John Thornhill

Russia's biggest oil companies yesterday dismissed suggestions that the government would unscramble its controversial "shares-for-loans" privatisations and buy back packets of shares it had transferred to leading banks last year.

Such talk reflected political rhetoric ahead of the presidential elections rather than economic reality, they said.

Last year, the Russian government raised Rbs2,400bn ($490m) by transferring its shareholdings in big oil companies such as Lukoil, Yukos, Sidanco, Surgutneftegaz, and Sibneft to a group of banks but retained an option to buy them back before September.

Mr Alexander Kazakov, privatisation minister, hinted this week that the government might exercise this option although it had not budgeted to do so. "The state should preserve its influence in oil companies," Mr Kazakov said.

Russia's Communist party has tried to milk the controversy surrounding the Byzantine "shares-for-loans" privatisations and vowed to overturn all "criminal" deals. That has increased the political pressure on the government to reconsider the contentious scheme.

In an interview last month, Mr Yuri Shafranik, the energy minister, indicated the government would adopt a purely pragmatic view towards the "share-for-loans" privatisations and leave the shares in private hands if the oil companies had benefited from the association with their new shareholders.

Seasonally adjusted unemployment rises for eighth month in a row

German jobless at record levels

By Peter Norman

German unemployment continued to hover around record levels last month, prompting the main opposition Social Democrats to urge the government to abandon budget consolidation and borrow more to boost the economy.

The federal labour office yesterday reported a "disappointing" drop in March. Although the unadjusted figure fell by 129,000 to 4.14m, from February's record 4.27m, seasonally adjusted unemployment rose for the eighth month in a row – by 26,000 to a new high of just under 4m.

The latest "headline" total was the highest for March in the history of the federal republic and was 467,000 up on a year earlier. According to the unadjusted figures, 10.8 per cent of the labour force were without work last month compared with 11.1 per cent in February and 9.6 per cent in March last year.

Mr Bernhard Jagoda, head of the labour office, blamed unusually cold weather and the onset of recession in the construction industry.

He added that the labour market statistics showed no sign of a trend for the better. In the first quarter, 2.05m people registered as unemployed, 19 per cent more than in the same period last year. The number of people on short-time working as an alternative to unemployment rose to 420,000 in March from 403,000 in February and 231,000 at the end of last year. There was also a fall in the number of people in employment: to 34.41m in January from 34.85m in December, according to estimates from the federal statistics office. There were 260,000 fewer employed in January than in the same month year.

In response to yesterday's news, SPD politicians warned the government against "destroying the economy" through tough budgetary policies. Mr Ernst Schwanhold, the party's economic policy spokesman in the Bundestag, said plans to cut public spending meant a "danger that Germany would slide into a deep recession". Ms Ursula Engelen-Kefer, a deputy chairwoman of the DGB trade union federation and a member of the SPD leadership, called for increased government borrowing to offset tax revenue shortfalls arising from low growth.

However, officials insisted yesterday that the government would stick to its course of combatting unemployment through its 50-point programme of changes to promote deregulation, restructure business taxation and reduce non-wage labour costs. Politicians from the coalition parties meet this week to iron out differences over the proposals and Chancellor Helmut Kohl has scheduled talks with senior ministers and party officials after his return from vacation on Sunday.

Yesterday's figures showed that 2.87m or 9.3 per cent of the labour force were unemployed in western Germany in March against 1.27m or 17 per cent in the former Communist eastern Länder (states).

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EUROPEAN NEWS DIGEST

Slovenia gives in to rail strikers

The Slovenian government yesterday gave in to a pay claim by railway workers six hours after they started a national strike. The railway union had already accepted a 6.2 per cent salary rise after demanding 38 per cent, but had held out for a 20 per cent supplement for Saturday work. The management had offered 15 per cent.

The average monthly wage of railway workers was 119,000 tolars ($880) in January, the same as the national average. During the strike around 70 per cent of domestic trains did not run but international trains – protected by Slovenian law – ran as scheduled.

The rail strike is the latest outbreak of industrial action in Slovenia, where the ruling centrist Liberal Democrats of prime minister Janez Drnovsek, in coalition with the rightwing Christian Democrats, must hold an election by December.

A strike by doctors and dentists in the former Yugoslav republic continued for a fourth week, leaving only emergency services operating normally. Their union was demanding a 25 per cent pay rise from January but the government said it could only raise salaries gradually to avoid similar demands from other public sector unions. *Reuter, Ljubljana*

Bulgaria to overhaul its railway

Bulgaria's debt-ridden state railway company, BSRC, is to close lines, cut jobs, raise fares, sell assets and set up joint ventures with foreign partners in a series of efficiency measures announced yesterday.

Charges for carrying freight will rise by up to 20 per cent from July 1 and passenger fares will rise from June 1 on a scale pegged to the inflation rate and a planned increase in energy prices.

The railway has had to delay setting up a joint venture with a plant producing sleepers for railway tracks and electric pylons in the Danube river port of Svishtov due to disagreements with a bidder, said the deputy executive director, Mr Yordan Mirchev. Another joint venture will be set up soon between a Sofia plant for railway points and Austrian engineering company, VAE Eisenbahnsysteme, Mr Mirchev said. The venture will sell its production in neighbouring countries in the Balkans.

The BSRC executive director, Mr Anguel Dimitrov, said the railway lost 2.7bn levs ($34m) in 1995, mainly due to a drop in passengers and infrastructure expenditure. The company's liabilities to the state budget, banks and suppliers totalled 7bn levs, he said, and subsidies this year would total 10.5bn levs, including 5bn levs from the European Bank for Reconstruction and Development as part of a $45m loan aimed at the railway's restructuring. *Reuter, Sofia*

Brussels approves Bosch deal

The European Commission yesterday cleared Germany's Robert Bosch to buy Allied Signal's worldwide hydraulic brakes business, including its anti-lock brakes systems (ABS).

It said that although Bosch's share of the market for ABS systems was about half in Europe and 30 per cent globally, the deal was unlikely to reinforce the German company's position because Allied Signal had "low market shares" worldwide and in Europe and its ABS business "has not been successful recently".

Brussels believes that Bosch will face stiff competition from ITT, Lucas, Kelsey-Hayes and Nissin Kogyo, and that Bosch and ITT (which has more than 5 per cent of the ABS market) are unlikely to create an oligopoly because of the power of the carmakers.

Approval was also given yesterday for a seeds joint venture between the British agrochemicals and drugs company Zeneca and Co-operative Suiker Unie of the Netherlands. The two companies are to pool their global seeds businesses, Zeneca Seeds and Royal VanderHave Group.

■ Brussels is starting infringement proceedings against France for refusing to allow a Greek cement company to open a distribution and storage centre in the harbour area of Grand Couronne, near Rouen. It said the French had imposed "excessive and discriminatory" environmental protection rules on Intertitan, part of the Titan group, while French companies were subject to less strict rules. *Reuter, Brussels*

Andreotti trial to begin again

A judge yesterday halted the trial on Mafia charges of Italy's former prime minister, Mr Giulio Andreotti (left), and ordered that it start again from scratch on May 15. The decision by presiding judge Francesco Ingargiola resulted from the illness of one of two associate judges sitting with him on the bench. Mr Andreotti's trial opened in the Sicilian capital, Palermo, last September but the court has not sat properly since January 10 because of the absence of a judge who has been suffering from a detached retina. The presence of both associate judges is necessary under Italian law. The trial will now have to start again with initial procedural matters, but both prosecution and defence want at least some of the testimony already presented to be integrated into the new proceedings to save time.

Mr Andreotti, seven times prime minister, denies charges he was the Mafia's political protector. He is due to stand trial from today in the central city of Perugia on a separate charge of complicity in the murder of a journalist. *Reuter, Palermo*

Takeover of Czech sell-off body

The Czech Privatisation Ministry, which has overseen the sale of thousands of state companies, expects to close its doors and wind down operations by June 30, a ministry official said yesterday.

The government approved the closure of the ministry in one of its autumn sessions last year.

Parliament has said it will discuss the issue during its session starting on April 16, its last before general elections on May 31-June 1. The Finance Ministry is to take over responsibility for sell-offs. *Reuter, Prague*

Norway's inflation falls to 0.7%

Norway's inflation rate fell to 0.7 per cent for the 12-month period ending on March 15, from 0.9 per cent a month earlier, the government statistics agency announced yesterday.

Statistics Norway said a significant factor was a cut in taxes which reduced new car prices by an average 4.6 per cent from January 1. The consumer price index increased 0.5 per cent to 261.3 in March from 260.1 in mid-February. The index was 259.4 in March 1995. *AP, Oslo*

Russian oil pipe leaks into river

Oil leaked from a pipeline into the Krepkaya river in the southern Russian region of Rostov yesterday, but it was not clear how big the spill was, the region's emergency officials said.

They said oil flow through the 700mm-wide Tyumen-Novorossiisk pipeline had been stopped and there was little threat to the environment, but could not say how much oil had leaked out.

Civil defence officials said they feared the oil could flow from the Krepkaya into the Don river, which provides drinking water for the whole region. They said the oil had covered a 20km stretch of the Krepkaya after the leak early yesterday. Fire brigades had been called in to make sure the oil did not ignite. *Reuter, Rostov*

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Strikers to test France Télécom

By David Buchan in Paris

The French government's plan for partial privatisation of France Télécom meets its first – and perhaps last – serious test with today's strike called by unions demanding the state retain full ownership of the public utility.

The government is waiting to see how strongly the strike is supported to gauge whether and when to proceed with legislation to give France Télécom its own capital. It then hopes to sell up to 49 per cent to employees, private investors and companies such as Deutsche Telekom and Sprint of the US, with which France Télécom has formed industrial partnerships.

The unions are hoping that many more than half France Télécom's 155,000 employees will stage a walk-out today. The workforce is more exercised by the partial privatisation plan for their company than the new government bill on telecoms deregulation which still leaves France Télécom responsible for basic phone services after 1998.

The unions have not been mollified by government assurances that the state will indefinitely retain 51 per cent of France Télécom and that employees will keep their civil service status with associated job security and pension privileges. They say it is highly unlikely that even a partially privatised company can continue to employ civil servants.

The government has left it to Mr Michel Bon, the France Télécom president, to reach some consensus with his workforce on privatisation. The unions have refused to negotiate with the France Télécom management, though the latter has tried a novel way of side-stepping this by opening an internal Minitel service to respond to employees' enquiries on privatisation.

These enquiries, running at several thousand a day, focus less on the principle of privatisation than on its consequences for pensions and work conditions.

Parties seek new angle in Pythagoras land

ITALIAN ELECTIONS
April 21

Crotone, once the home of Pythagoras, the mathematician and philosopher, is exceptional not for its Greek ruins but for the smoking factories which line the beach to the north of the Calabrian town. It is that rare southern Italian phenomenon, an industrial centre. The town is also a reminder to national politicians that it is risky to generalise about the poor southern tip of Italy. As Mr Gaetano Grillo, Crotone's mayor, puts it, his town is "both a development area and a crisis area".

The crisis came to a head in September 1993, when workers from the state-owned Enichem phosphorus plant, desperate about the prospect of job cuts and exasperated by the government's apparent failure to understand their plight, vandalised the factory, blocked the railway tracks and poured burning phosphorus on the main road.

The government of the time, under Mr Carlo Azeglio Ciampi, agreed a compromise which put an end to the violent dispute by promising the town special status as a development area. Threatened jobs would be redistributed to new employers, and a consortium set up to promote the area. Now two of the workers' leaders from 1993 are fighting on opposing sides in the April 21 election – Mr Rocco Gaetani for the the Democratic party of the Left (PDS), the principal party in the centre-left alliance, and Mr Carlo Turino for the right-wing National Alliance (AN).

Mr Turino admits that an AN victory would be "a miracle". The area's deep industrial roots mean it has been dominated by the left for more than 50 years, and it was once dubbed the "Stalingrad of the South". Mr Gaetani's solid platform for election to the lower house of parliament is based not only on his credentials as a workers' leader in 1993, but his role as deputy mayor.

Mr Turino's view of Crotone, therefore, is the more pessimistic. He says the accord which ended the Enichem dispute has not done away with feelings of frustration. He states that six out of every 10 young people are out of work, while Mr Gaetani claims youth unemployment is 35 per cent.

The left says the presence of heavy industry has saved Crotone from the worst of the organised crime which blights other parts of Calabria; the right claims rising unemployment is providing new recruits for Mafia clans. But both sides know that the overriding election concern in Crotone and the south is the ability of Rome to deliver on campaign promises for the region.

Party leaders before a TV debate on Tuesday night (left to right): Gianfranco Fini (National Alliance), Silvio Berlusconi (Freedom Alliance), presenter Bruno Vespa, Umberto Bossi (Northern League), Lamberto Dini (Renewal party), Massimo D'Alema (PDS) Reuter

There is no shortage of rhetorical commitment to the area. Many national party leaders are heading the election lists in Calabria, for example, in an attempt to demonstrate their willingness to tackle the region's problems. But Mr Gaetani of the PDS believes that although the strategy is understandable, it may blur the important message that Calabria's problems are now best solved by Calabrians.

The Crotone development consortium – one of the main results of the 1993 agreement between unions and government – is a model for local co-operation now being taken up across southern Italy. The consortium groups entrepreneurs, trade associations and local representatives of Eni, Enichem's state-controlled parent. It is about to launch an invitation for industrial investment projects, which will benefit from government and European Union funding.

The aim is to promote the growth of small and medium-sized enterprises, reducing the risk that the decisions of a single employer could provoke another crisis like that of 1993.

Mr Salvatore Foti, the local businessman who heads the consortium, is optimistic about the local will to create new job opportunities with government help in infrastructure and training.

Mr Gaetani says this is exactly the goal of the centre-left, "looking for depressed areas and intervening on the ground". It is a theorem of Pythagorean simplicity. But in the past, politicians have proved unable to make training, infrastructure and inward investment coincide. The south is littered with "cathedrals in the desert", massive state-funded projects which failed to prosper because of corruption or bad planning. In steering Crotone towards development, any government will have to tread a thin line between intervention and arms-length encouragement.

Andrew Hill

Bosnian Serbs win aid talks seat

By Laura Silber in Belgrade

The Bosnian Serbs were yesterday given the go-ahead to attend an international donors' conference this weekend on aid for reconstruction.

Mr Carl Bildt, the international mediator responsible for implementing the civilian side of the Dayton peace accord, said the Bosnian Serbs had complied with a pledge to release prisoners of war. Until yesterday he had blocked their attendance because they had failed to free remaining prisoners by a deadline of midnight last Friday.

"Since yesterday afternoon they (the Bosnian Serbs) are in full compliance in the same way the (Moslem-Croat) federation side has been for the last three days," Mr Bildt told reporters in Sarajevo. "That is the most important thing. The offer for them to participate is now there."

More than 50 countries and 25 international organisations are due to attend the conference, which starts in Brussels tomorrow. It will be hosted jointly by the European Commission and the World Bank, with the aim of raising $1.2bn dollars for emergency reconstruction projects in Bosnia.

Frustrated by the former warring parties' delays in implementing the Dayton accords, Mr Bildt had threatened to exclude them from the reconstruction conference unless they freed prisoners of war or submitted their names to a list of suspected war criminals at the international tribunal in The Hague.

Yesterday Mr Bildt said the new strategy of taking a "very firm line" on the prisoner issue "has proved to be a success". Over the past week, the three sides have freed more than 200 prisoner and now hold 29 people as alleged war criminals.

In Sarajevo, President Alija Izetbegovic appealed to Islamic countries to help rebuild post-war Bosnia and arm a Bosnian government army.

"The help that we expect from Islamic countries in equipping the army and economic reconstruction of our country will be definitely one of the strongest factors in strengthening and building a stable peace in this part of the world," said Mr Izetbegovic, who yesterday hosted a meeting in Sarajevo of the Organisation of the Islamic Conference.

The Belgrade authorities yesterday unexpectedly detained as suspected war criminals 13 men from the fallen eastern enclaves of Srebrenica and Zepa, just before they were to board buses to return to Bosnia from a refugee camp inside Serbia, writes Laura Silber. The men were some of several hundred Bosnian Moslems who fled the Serb onslaught against the enclaves last July. Mr Marwan Elkhoury of the UN High Commissioner for Refugees said yesterday that he was "dismayed and deeply concerned about the continuing detention" of the group, whom the Serbians had previously screened and cleared for repatriation.

Turkish business leader calls for end to 'chaos'

By John Barham in Ankara

The head of Turkey's main business organisation yesterday called on the two conservative parties in the new coalition government to stop bickering and take urgent action to deal with the country's mounting problems.

Mr Halis Komili, leader of Tusiad, said: "The parties know well that unless they make some positive, measurable headway towards solving the problems of our country, they do not stand a chance of increasing their share of popular votes.

"Moreover they understand that more delays will lead to more chaos given the magnitude of the economic, social and political problems."

Although Mr Mesut Yilmaz, leader of the conservative Motherland party, took office as prime minister more than a month ago, rivalry with his coalition partner, the True Path party led by Mrs Tansu Çiller, has blocked senior economic appointments, delaying design of a coherent economic strategy. For instance, there is still no central bank governor and parliament is still debating the 1996 budget.

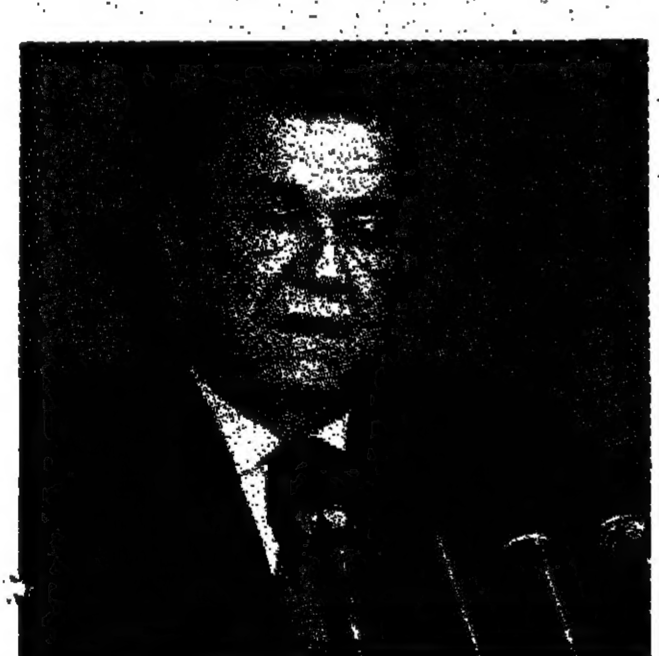
Many observers fear that the fragile government, which is 15 seats short of a majority in parliament, could soon collapse, further strengthening the appeal of the Islamist Refah party, the main opposition.

Mr Komili said that far from facing imminent collapse, the new government reflects a national consensus in favour of market-oriented policies. "The partners know that they will have to make this government last," he said.

Yet, he complained, "there are still people in Ankara who think they can get by without tackling the country's real issues."

These are a $5bn annual government budget deficit, heavy interest payments on the domestic debt, a stalled privatisation programme and inflation that reached 79 per cent last year.

Venezuela to remove forex controls



Caldera: to announce measures next week

By Raymond Colitt in Caracas and agencies

The Venezuelan government is to remove all foreign exchange controls, which have been in place since June 1994. Mr Teodoro Petkoff, the planning minister, yesterday said that the measure was likely to be announced early next week by President Rafael Caldera as part of a global economic stabilisation plan.

Mr Petkoff said foreign exchange controls would be removed both on current and capital account transactions. The bolivar would then be allowed to float against the dollar, with the Venezuelan Central Bank intervening to prop up the bolivar, he said.

Previously it was widely expected that only current account transactions would be liberalised in order to avoid excessive capital flight.

Venezuela is currently in talks with the International Monetary Fund for a stand-by agreement of up to $2.5bn aimed at curbing the nation's worst economic crisis in years, part of which would be to help recuperate reserves after the liberalisation of the foreign exchange regime.

"We should have a preliminary agreement [with the IMF] in a very short time," he said.

Mr Petkoff did not say whether the bolivar would float immediately or whether a band system would be used. He said however that the bolivar was likely to find itself trading against the dollar somewhere between the official, fixed rate and the parallel market rate.

The government set the bolivar at 290 to the dollar on December 11. On the parallel foreign exchange market established by the trading of Venezuelan Brady bonds, the dollar was quoted in Caracas on Tuesday at 463-468 bolivars, up from 455-460 bolivars on Monday.

Mr Petkoff expressed his confidence that the central bank's international monetary reserves, currently just under $10bn, were sufficient to stem a possible run on the US dollar. Though he did not clarify how much capital he expected to leave the country, he said "there aren't enough bolivars in the Venezuelan economy" to consume all of the reserves.

Yesterday the stock exchange reacted bullishly in response to Mr Petkoff's announcement. The Merinvest composite index rose to 177.97 at mid-day yesterday, up 4.65 per cent over Tuesday, while the bolivar appreciated slightly in the parallel exchange market. If the government fails to implement the measures, inflation could hit 150 per cent this year and the economy could shrink by 6 or 7 per cent, said Mr Petkoff.

Major points of contention between the IMF and Venezuela included raising the price of heavily subsidised gasoline that is among the cheapest in the world, officials have said.

The economic reforms are expected to provoke a sharp short-term jump in inflation that already is the highest in Latin America. Accumulated inflation was 57 per cent last year and has shot up to 24 per cent the first three months of this year.

To cushion the blow, the government will provide 400bn bolivars in subsidies to the poor, who make up 80 per cent of the population, Mr Petkoff said.

A rise in gasoline prices in 1989 provoked mass riots in which security forces killed hundreds of people. Mr Petkoff said Venezuelans were now convinced austerity measures were necessary to turn around the economy.

AMERICAN NEWS DIGEST

Call to freeze Lloyd's funds

The California state securities regulator yesterday refiled its amended complaint against Lloyd's of London seeking an injunction to freeze $500m of Lloyd's funds held with its US bank, Citibank. The move, signalled in February, threatens to prevent Lloyd's collecting significant sums from US Names as part of its overall recovery plan.

"Seeking the preliminary injunction against Lloyd's is the only way the department can ensure that Lloyd's ends the fraud that it has perpetrated against California Names and stops its current violations of state securities laws," said Mr Peter Kezirian for the California Department of Corporations.

The compliant had to be refiled due to a technical error. The department claimed its actions would not have an impact on any payment on valid insurance claims. Up to 100 other defendants are named in the papers.

Lloyd's is also alleged to have known about unquantifiable liability for pollution and asbestos losses since 1970, but continued to recruit new investors for those syndicates without disclosing this liability. All the allegations have been strongly denied. *Jim Kelly, Accountancy Correspondent*

Odd couple do battle again

One of Washington's oddest political couples – Ms Mary Matalin, Republican strategist, and Mr James Carville, Democratic adviser to President Bill Clinton – are set to face off again over campaign politics, with Ms Matalin due to join Senator Bob Dole's campaign for President.

Ms Matalin, who was deputy director of former President Bush's unsuccessful 1992 re-election campaign, is to join the Dole campaign in June.

Her husband, James Carville, was lead strategist for President Clinton's 1992 campaign. He is expected to take a formal role in the Clinton re-election campaign later this year. *Patti Waldmeir and Nancy Dunne, Washington*

Arrests in Mexican probe

Mexican police have arrested an accountant and a businessman who allegedly acted as frontmen for Mr Raúl Salinas, the elder brother of former president Carlos Salinas, who is in jail on charges of embezzlement and murder.

Police said the two men, Juan Gómez Caro and Jesus Gómez Portugal, had allowed Mr Salinas to register some of his properties under their names for tax evasion purposes. Their arrest forms part of an investigation into Mr Salinas's "inexplicable enrichment" during his career as a civil servant.

Mr Salinas was arrested in February 1995, three months after his brother stepped down from office, accused of plotting the murder of a leader of the ruling Institutional Revolutionary party. He was later charged with embezzlement. *Leslie Crawford, Mexico City*

Montserrat evacuation likely

The authorities in Montserrat are considering the evacuation of most of the island's 11,000 people to neighbouring islands if scientists confirm the imminent eruption of a rumbling volcano.

Several thousand people have already been moved from their homes to the north of the island, which is considered safer ground in the event of an eruption by the Lang Soufriere volcano. Plymouth, the capital of the island, is deserted.

Scientists have said that the volcano could erupt with little warning, following an explosion which sent a dust cloud 20,000 feet into the air, accompanied by emissions of rocks and flows of lava. *Canute James, Kingston*

Convert Republican loses Texas nomination

By Patti Waldmeir in Washington

In an embarrassing defeat for the Republican establishment, congressman Greg Laughlin, a Democrat who turned Republican, lost his bid for his new party's nomination in the 14th congressional district of Texas.

Senior Republicans from former President George Bush to Mr Newt Gingrich, the House speaker and Mr Dick Armey, House majority leader, endorsed Mr Laughlin in a blitz aimed at preventing his defeat in a run-off primary election on Tuesday.

Such heavyweight Republican endorsements would not normally be forthcoming for candidates in congressional primaries. But Mr Laughlin was no ordinary congressman: he was a prize convert, rewarded for his conversion with a much coveted place on the House Ways and Means committee after making the switch last June.

Republican leaders regularly boast of the conversion of congressman Laughlin and some 200 other Democratic office-holders, to prove that there is a Republican revolution taking place in American politics.

Mr Laughlin, a four-term incumbent, was one of five congressmen who switched to the Republican party after its 1994 landslide. Party leaders were keen to avoid sending the message to other potential converts that switching parties is a sure path to defeat.

Texas Governor George Bush, the former President's son, campaigned heavily for Mr Laughlin, saying more shifts in party loyalty were essential for the success of the Republican revolution.

Mr Laughlin's loss will surely embarrass the party and its leaders, who provided heavy campaign funding as well as endorsements: 53 fellow House Republicans sent $45,850 in contributions to the Laughlin campaign in its final weeks.

But the message from 14th district Texan voters is harder to read: for the race was one between Republicans, a run-off made necessary when the party primary on March 12 failed to yield a clear majority for any candidate.

Tuesday's poll, which was won by Mr Ron Paul, a former Republican congressman who ran for President in 1988 as a libertarian, was no rebuff to conservative Republicanism. Both candidates trumpeted their conservative credentials throughout the race with Mr Paul claiming to be the truer conservative, citing Mr Laughlin's discarded Democratic political identity as proof.

Meanwhile, in another Texas upset on Tuesday, a high school teacher who campaigned from a pickup truck, with almost no funds and no staff, captured the Democratic nomination in a run-off primary election for the Senate.

Mr Victor Morales, grandson of Mexican immigrants, defeated Representative John Bryant, a 14-year House veteran. In November's general election, he will face incumbent Senator Phil Gramm, who recently withdrew as a candidate for President.

Clinton leads mourners for dead cabinet minister

Ron Brown has hero's funeral in Washington

By Patti Waldmeir and Nancy Dunne in Washington

President Bill Clinton yesterday led US political and civil rights leaders in a hero's funeral for Mr Ron Brown, the commerce secretary, who died in a Balkan air crash last week. Mr Clinton and members of his cabinet stood in silence as Mr Brown's casket was brought by military honour guard to the National Cathedral in Washington.

Mr Brown and 32 other Americans were killed when their military passenger jet hit a mountain ridge while trying to land in Dubrovnik, Croatia, in bad weather. The group, which included a dozen US business leaders, was in the war-shattered former Yugoslavia to explore opportunities for investment in reconstruction projects.

Yesterday's funeral, a tribute of the sort normally reserved for former presidents and war heroes, followed a day of mourning during which Mr Brown's flag-draped casket lay in state at the Commerce Department, on the same bier built in 1865 to bear the body of President Abraham Lincoln.

All day Tuesday and through the night, mourners queued in a chill rain to view the casket of a man who was an important black political figure and a power-player in Democratic politics. The display of public grief at his death was unexpected, and mourning had to be extended beyond past the 24 hours allotted, in order to accommodate the large crowds.

But when President Clinton rose yesterday to deliver the funeral eulogy, he sought to celebrate Mr Brown's life rather than mourn his death, injecting a tone of light humour in his address which raised laughter from the 3,000-strong congregation.

In a subtle address which seemed to capture the mood of the crowd and the Brown family, he recounted anecdotes from the dead man's Harlem childhood – including the young Ron Brown's illicit sales of the autograph of heavyweight champion Joe Louis – and from his own long political association with him.

The president also drew smiles with references to the Secretary's sartorial elegance.

Acknowledging Mr Brown's role in getting him elected as president, Mr Clinton said: "I want to say to my friend one last time: Thank you. If it weren't for you, I would not be here."

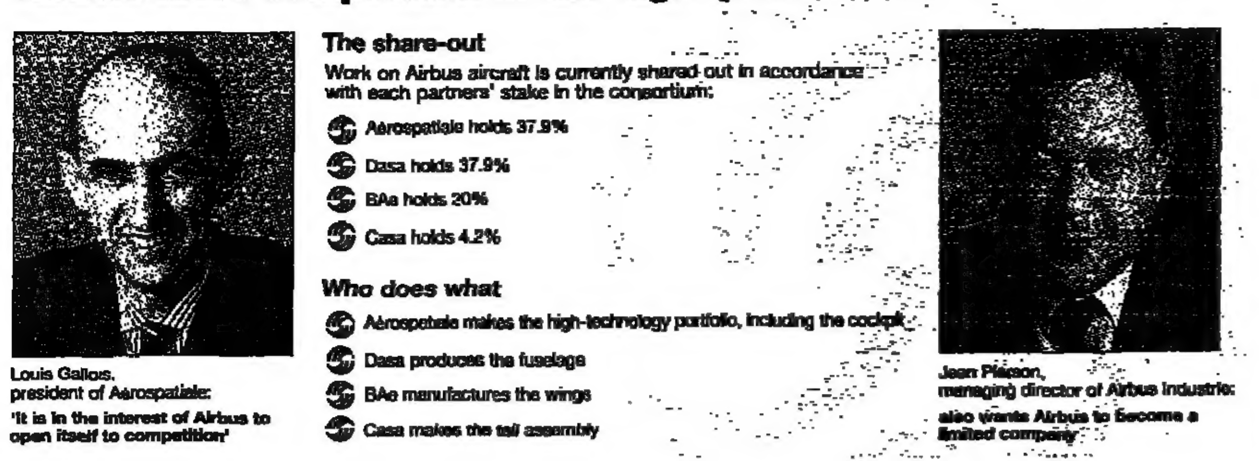
After the cathedral service, a funeral procession was due to retrace Mr Brown's life symbolically, wending its way through a black urban neighbourhood and the heart of official Washington on its way to Arlington National Cemetery, final resting place of many of the nation's most illustrious citizens.

French partner endorses calls to turn aircraft consortium into a limited company

Aérospatiale chief backs Airbus reform

By Michael Skapinker and David Buchan in Paris

Airbus: more competition in the flight plan?



Louis Gallois, president of Aérospatiale: 'It is in the interest of Airbus to open itself to competition'

Jean Pierson, managing director of Airbus Industrie: also wants Airbus to become a limited company

Mr Louis Gallois, the chairman of Aérospatiale of France, yesterday threw his company's weight behind a radical restructuring of Airbus Industrie, calling for an end to the European aircraft consortium's tradition of allocating work in accordance with the shareholdings of its partner companies.

Speaking on the day that Airbus won a $1.5bn order from China, Mr Gallois said Airbus should be free to seek out low-cost suppliers, even if these were not its European shareholding companies.

He accepted that his proposals meant Aérospatiale would have to compete against other manufacturers to win Airbus contracts and might end up with less work than it had now. His proposal would mean the end of the Airbus practice of *juste retour*, under which the consortium's partner companies are guaranteed a certain proportion of aircraft manufacturing work.

The UK has been a strong advocate of turning Airbus, the world's second largest aircraft maker, into a limited company. The UK recently received support from the German government, which said it would not subsidise the building of new Airbus aircraft unless the consortium changed its structure. Mr Jean Pierson, Airbus managing director, has also called for Airbus to become a limited company.

Airbus is a *Groupement d'Intérêt Economique*, which means its profits and losses accrue to the companies that own it rather than to the consortium itself. Airbus is owned by Aérospatiale, Daimler-Benz Aerospace (Dasa) of Germany, each with a 37.9 per cent stake, British Aerospace, which has 20 per cent, and Casa of Spain with 4.2 per cent.

The four partner companies are allocated work on Airbus aircraft in accordance with their shareholdings. Critics of the GIE structure say it prevents Airbus from competing effectively because it cannot contract its work out to lower cost manufacturers. As a limited company, they say, it could drive down costs and compete more effectively with Boeing of the US, the world's biggest aircraft manufacturer.

Some in the industry claim Aérospatiale is the strongest opponent of any change in the Airbus structure but Mr Gallois strongly denied this. He said Airbus needed to become a limited company because airlines were demanding it. He said: "They want to be reassured about the future of Airbus and they think the future of Airbus is linked to the transformation of ts status into a fully fledged company."

He added that Airbus would soon have more than 2,000 aircraft in service and it had to be able to react more quickly to customer demands. It could do this more effectively if it was a company in its own right.

A committee under the leadership of Mr Edzard Reuter, former chairman of Daimler-Benz, is due to report at the end of May on whether the structure of Airbus should be changed. Mr Gallois said, however, that Airbus could not be transformed overnight. "I don't see the Airbus Industrie company becoming independent of the shareholders from day one."

Airbus would be the only aircraft manufacturer making solely commercial aircraft, he said, as Boeing and McDonnell Douglas of the US had large military businesses. He said the partner companies would have to work to ensure that the financial markets accepted the Airbus company's viability.

He said the partners would have to decide whether, after a transitional period, all their Airbus manufacturing facilities would be transferred to the new company or whether Airbus should have the right to choose its suppliers freely. He said, however, that transferring all the partners' Airbus facilities to the newly formed company would limit its freedom to seek out the lowest cost suppliers.

He said: "I think it is in the interest of Airbus to open itself to competition. If we put every facility inside Airbus, that means there's no competition."

Did Mr Gallois accept that in a fully competitive system, Aérospatiale might end up with less than 37.9 per cent of the work? "Yes – or more," he said. "We are fully confident about our competitiveness."

Mr Gallois rejected the view that Aérospatiale was less competitive than BAe. He said Aérospatiale was overwhelmingly a civil manufacturer, while BAe's business was predominantly military, where margins were higher. He said that while he had the highest respect for BAe's management, the UK company had had the advantage of operating in sterling rather than the strong French franc.

He said once Airbus had been incorporated, Aérospatiale, Dasa and BAe should work towards a closer integration of their businesses. He said the three companies were too small on their own to compete with the large US aerospace and defence groups.

"Airbus is so important to the three companies and we have so many links outside Airbus that we need a permanent convergence between our groups."

But he was still unclear what form this rapprochement should take. "It could be financial, it could be technical," he said.

Fall in American chip sales fuels uncertainty

By Louise Kehoe in San Francisco

The US semiconductor industry's "book to bill ratio", a closely watched indicator of market trends, dropped to a record low in March, signalling an industry-wide slowdown.

Chip sales during March in North and South America were $4.16bn, down about 3 per cent from February sales of $4.29bn, according to data released by the Semiconductor Industry Association. New orders booked during March dropped sharply to $3.33bn, down 12.5 per cent from February.

The book-to-bill ratio, a measure of the value of chips sold against new orders – fell to 0.80 from a revised February figure of 0.89. A ratio below 1.00 normally means demand for semiconductors is slowing.

The decline in the industry indicator should have been expected, an industry official said, because the ratio is calculated as a three-month rolling average and chip sales were strong in December, boosting the February figure.

"Worldwide, the market outlook for the chip industry is still very bright," said Mr Doug Andrey, SIA director of information systems and finance.

Financial analysts, however, had been projecting a ratio of about 0.90, roughly flat with February. The decline is likely to fuel uncertainties about the industry outlook.

Several factors appear to be contributing to the industry slowdown. Personal computer manufacturers have a backlog of chip stocks after slower-than-expected sales last Christmas. Although PC sales were up more than 20 per cent in the fourth quarter of 1995 against the same period a year before, some analysts had predicted growth of more than 30 per cent.

In addition, prices for memory chips have declined sharply over the past three months, in some cases by as much as 60 per cent, as production outpaces demand.

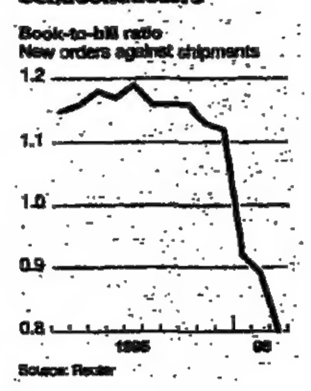
However, most industry analysts expect the US chip industry to rebound by the end of this year as computer manufacturers use up their excess stocks of chips.

Another good sign for chip makers is a slight rise in the average prices of some memory chips over the past few weeks.

Overall, semiconductor market growth for the year is now expected to moderate to about 15–20 per cent, down from close to 40 per cent last year but in line with the industry's long-term growth rate.

Last month, following the second consecutive monthly fall in the book-to-bill ratio, Texas Instruments, one of the largest US semiconductor manufacturers, said it had cut its estimate for 1996 industry sales growth to about 20 per cent, from 40 per cent last year.

Semiconductors



Source: Reuter

WORLD TRADE NEWS DIGEST

Unilever to make ice cream in Vietnam

Vietnam has approved a $22m ice cream manufacturing venture by Unilever, the Anglo-Dutch consumer products group, to produce and sell Wall's ice cream. Ice cream sales have risen in the cities since economic reforms took hold in the early 1990s, boosting disposable incomes. The plant, to open next year, will be in Cu Chi district, 35km north of Ho Chi Minh City. The site is not far from the Cu Chi tunnels, a vast network of underground passages used by Vietnamese guerrillas during the Vietnam war and now a popular tourist attraction. The area has also started to attract an increasing number of foreign investors seeking to escape high land and labour costs in Ho Chi Minh City. About 80 per cent of the raw and packaging materials would be obtained locally.

Baskin-Robbins, the US ice-cream maker, already has three franchises in Ho Chi Minh City and one in Hanoi, where a scoop sells for $1.90. *Jeremy Grant, Hanoi*

Sumitomo opens S Africa office

Sumitomo Bank, one of Japan's largest, is to open an office in Johannesburg, becoming the first Japanese lender to operate in South Africa. The office will collect information for Japanese companies planning to do business in the country. The bank hopes to contribute towards the development of long-term economic relations between Japan and South Africa.

Japanese investors have been reluctant to invest in South Africa, though in the last few years a number of companies have opened offices there. Two years ago, Sumitomo Corporation became the first Japanese company to invest in the country in the post-apartheid era, when it set up a joint venture with a local mining company. *Gerard Baker, Tokyo*

BMW and Jaguar target Japan

Luxury car makers BMW and Jaguar yesterday announced marketing and sales drives in Japan. The Japanese unit of BMW yesterday launched a remodelled BMW 5 series in Japan with a new BMW 525i and 528i going on sale on June 1. The company has set a target of 10,000 cars for 1996. The new 5 series features a side airbag as standard equipment and aluminium suspension parts.

Jaguar Japan said yesterday it hoped to boost local vehicle sales to 8,000 units a year by 1999 from about 2,500 at present. It plans to double sales outlets to 80 by 1999. *Foreign Staff*

UK plans Jakarta rail bid

Indonesian transport minister Haryanto Dhanutirto yesterday said the UK planned to bid for a high-speed train link between Jakarta and Surabaya in East Java. He said the UK has proposed a 200kph train, coaches and provision of a soft loan for the project. Mr Haryanto said the bid has the backing of visiting UK transport secretary Sir George Young. *AFX Asia, Jakarta*

■ Japan Air System and Air Nippon of Japan plan to ask the Japanese transport ministry that their bids for Japan-US air routes be put on the agenda for the next round of aviation talks with the US. Japan Air System is likely to seek approval for routes linking Tokyo to Honolulu and the US West coast, as well as between Osaka and Honolulu. Air Nippon wants to begin services to Guam, Saipan and Honolulu from Japan's regional airports. *AFX Asia, Tokyo*

Sudan casts around for friends

By James Whittington in Cairo

The Sudanese government is desperately trying to forge a series of unlikely alliances with opposition groups as it becomes increasingly likely that the United Nations Security Council will impose some form of sanctions on the country for its alleged support of international terrorism.

Yesterday, the Islamist military regime in Khartoum said it had signed peace agreements with a number of rebel groups to end the civil war in southern Sudan.

Significantly, however, the Sudan People's Liberation Army, which has led the 13-year war against central government in Khartoum, was not a party to the agreements.

Last week, Sudanese President Omar Hassan al-Bashir tried unsuccessfully to woo another implacable detractor, Mr Sadeq al-Mahdi, head of the Umma opposition party who was prime minister of the government Lt Gen Bashir overthrew in 1989.

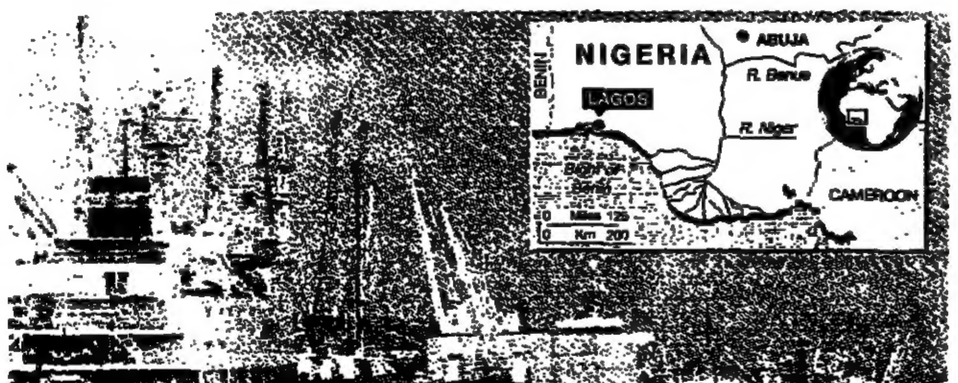
The Security Council is holding informal consultations on a draft resolution for mainly diplomatic sanctions on Sudan. This comes as punishment for Khartoum's failure to hand over three Islamist militants who are wanted by Ethiopia in connection with the assassination attempt on Egyptian President Hosni Mubarak in Addis Ababa last June.

The draft calls for a reduction of diplomatic missions in Khartoum, restrictions on members of the Sudanese government travelling abroad, and the banning of international and regional conferences in the Sudan.

In the face of harsher measures, such as an economic, arms and air embargo which Ethiopia and the US have been pushing for, the regime in Khartoum has won the reluctant support of Egypt which is against any action which would change the military balance between the north and south.

Clouds over Nigeria's port reforms

Businessmen view anti-corruption move with scepticism, writes Paul Adams



Lagos' Apapa docks: businessmen fear the new measures will increase rather than cut red tape

Ask businessmen in Nigeria what makes it such a difficult place and near the top of their list of grievances would be the corrupt bureaucracy at the ports.

One might therefore have thought that a government purge of customs and a programme to clean up the ports would have been welcomed. But importers, exporters and manufacturers fear that the new measures will increase rather than cut red tape and that corruption will remain in different guises.

Under the scheme, announced by Mr Anthony Ani, finance minister, in February and introduced at the beginning of this month, the collection of import duty is being transferred from the customs service to designated firms of accountants and banks. The government hopes this will root out corruption, end duty exemptions and boost state revenue.

There is also a new set of import and export procedures including, to the surprise of many, pre-shipment inspection for exports and for imports of accompanied personal effects.

"So far it is all a bit of a nonsense but we are hoping this will be a first step," says an international shipping expert in Lagos.

Few doubt this need for action in Nigeria's ports, which are among the busiest in Africa. Up to 30 government agencies, ranging from various types of police and military task forces to drugs squads and quarantine inspectors, operate in them. Rival services compete for power amid poor transport and communications, shortages of power, water and fuel, delays, arrests, bribery, fraud and outright theft. On top of all that, say international shipping lines, the Nigerian ports authority charges among the highest tariffs in the world.

Mr Ani says that although customs, the main target of the reforms, is the second largest source of state revenue after oil, it should be bringing in twice what it is. Some customs posts are so lucrative that officers pay for the privilege.

When the finance minister announced his campaign, he revoked the licences of all customs clearing agents and told them to re-apply. Some of their chief executives were arrested and some officers charged with fraud. About 6,000 containers, which were landed in Nigeria between November and January without duty being paid on them, were impounded, which jammed up the port. They are only now being cleared.

Activity at the Lagos ports ground almost to a halt before the new guidelines were announced. Trade along the west African coast was already suffering from the closure of the land border with Benin last month for "reasons of security", just before local government elections.

When they were published earlier this month, the guidelines did little to dispel the confusion. They include provisions that seem unworkable and are likely to be scrapped, such as the need for pre-shipment inspection even for accompanied personal effects, or unnecessary and potentially damaging, such as the rule that exports be inspected before shipment by two previously unknown agencies which would exact a charge of 1.15 per cent of the goods value.

In the case of oil exports the government will be taxing itself, since it owns 58 per cent of the oil producing joint ventures. The revenue to be gained from non-oil exports would be relatively small and the measure is contrary to the government's policy of diversifying from oil as a source of nearly all Nigeria's foreign exchange. Some exporters believe that the export charge and the additional red tape could put an end to some marginal exports and depress the leading non-oil export businesses, cocoa and rubber.

"The government's attempt to clear up the mess at the ports is overdue, but I don't think they are going the right way about it," says the head of a manufacturing company. "There seems to be almost no planning of the changes and I wonder how these accountants are going to cope at the ports."

One leading accountancy firm which found itself on the government's list of new customs inspectors says that it does not want this type of business. Mr Ani has had to remove from the list the Nigerian affiliate of KPMG Peat Marwick, of which he used to be senior partner, after some pointed criticism of its connection with the finance minister.

The new import guidelines prompted one of the main courier companies, UPS, to take the precaution of stopping even documents coming in on April 1.

While the new system was to take effect from April 1, companies are waiting while committees are formed by officials of the finance ministry, customs and the four international pre-shipment inspection agencies at both of the Lagos seaports, the eastern seaports, Lagos airport and Kano airport to work out the new customs system.

But even with a new system, they face an old problem – the strength of vested interests in smuggling in Nigeria.

Iran and Turkey in tit-for-tat expulsions

By John Barham in Ankara

Turkey and Iran yesterday ordered tit-for-tat expulsions of diplomats from their capitals, further straining already tense relations between the two countries.

Mr Omer Akbel, Turkey's foreign ministry spokesman, said the government had asked Iran to withdraw four Iranian diplomats stationed in Ankara who were implicated in a series of attacks in 1990 against exiles and prominent Turkish secularist writers.

In March, Istanbul police arrested Mr Irfan Çağirici, an Islamic militant, suspected of murdering at least three Turkish writers and an exiled Iranian dissident. The Islamic Action Organisation, which is believed to have close links to Iran and which he helped found, is also suspected of killing three other secularists and kidnapping an Iranian exile. Mr Çağirici told police that diplomats at the Iranian embassy and consulate in Istanbul had provided arms and support.

Mr Akbel said Iranian authorities had detained four Turkish diplomats in western Iran immediately after Turkey's request on Tuesday.

Yesterday, Tehran ordered the diplomats to leave, accusing them of spying. An Iranian official told Irna, the government news agency: "They were trying to form clandestine groups in an effort to carry out unlawful operations and acts of sabotage against the sovereignty of the Islamic Republic of Iran."

Ties between Islamic Iran and secular Turkey had improved in recent years after both sides agreed to act against groups opposed to each government from operating in the other country. Mr Akbel said that an official visit by Mr Ali Akbar Velayati, Iran's foreign minister, is still expected at the end of this month.

However, relations began souring in February after Turkey accused Iran of shipping arms to Kurdish guerrillas based in Syria. Turkey has complained repeatedly that fighters of the Kurdistan Workers party (PKK) are operating from camps in remote areas of western Iran.

Iran later protested against Ankara's decision to allow demonstrations by the Mujahideen Khalq opposition group. Two members of the National Council of Resistance of Iran, linked to the Mujahideen Khalq were later killed in Istanbul. Last week, Iranian officials angrily criticised Turkey's announcement that it would allow Israeli air force jets to use Turkish bases for training under a new military co-operation agreement.

INTERNATIONAL NEWS DIGEST

Arab markets 'lack faith'

Arab countries need to overhaul investment regulations to boost confidence in their markets and lure foreign investment, economists and bankers said yesterday. "It is no secret that wealthy Arabs place only a fraction of their money in their own backyards," Sheikh Mohammed Salim bin Mahfouz, chairman and chief executive of the Saudi Arabia based National Commercial Bank told the Gulf Economic Forum. "There is a lack of credibility... little faith that laws and regulation regimes will be applied consistently and fairly."

Foreign banks hold about $670bn of assets of Arab origin, said Saudi Commerce Minister Osama bin Jaafar bin Ibrahim Faqih. Oil-rich Gulf states have pumped about $600bn abroad, according to Mr Paul Papadopoulos, Arab Banking Corporation's first vice president. Speakers at the two-day forum, which ended yesterday in Manama, Bahrain, heard officials from the Palestinian self-rule areas and Bosnia plead for investment by emphasising they were entering new stages of peace. *Reuter, Manama*

Civilians dodge Liberia bullets

A fragile truce held in the Liberian capital, Monrovia, yesterday as hundreds of fugitive civilians defied sporadic shooting and prowling militia fighters to try to reach home. The US pressed on with its round-the-clock helicopter airlift of Americans and other foreigners to neighbouring Sierra Leone, where 75 evacuees arrived overnight. Civilians in the city centre barracks where fugitive warlord Roosevelt Johnson was holed up with fighters of his Krahn tribe said they were free to leave but afraid to venture out. They said about 30 West African peacekeepers held hostage had been freed but 36 Lebanese civilians had not. Under Tuesday night's ceasefire agreement, which brought some respite after four days of fighting, Johnson agreed to release several hundred civilians and a number of peacekeepers held hostage by his forces.

Witnesses said hundreds of the 15,000 people sheltering in a US embassy annexe left, dodging fighters and saying that if they had to die they preferred to die at home. Intensive negotiations took place among West African peacekeepers, faction leaders and members of the ruling council of state to build on the ceasefire agreement. *Reuter, Monrovia*

Superhighway heads south

Ministers from 40 countries including the Group of Seven big industrial nations will meet in Midrand, South Africa, next month to discuss ways to ensure that the benefits of the information revolution are extended to the world's poorer regions.

Officials from both industrialised and developing countries are to meet in Brussels tomorrow to plan the conference. It follows the G7 conference on the global information infrastructure held in Brussels last year where a principal concern was the need to ensure that the growth of information technology does not widen the gap between rich and poor nations.

The Midrand meeting is expected to explore issues such as the development of information highways in developing countries able to help in areas such as medical care and education. Advanced networking technology makes it possible, for example, to carry out remote diagnosis and treatment of some medical conditions. It is expected that the national delegations will be headed by telecommunications or other relevant ministers. Mr Jacques Santer, European Commission president, Telecommunications Commissioner Martin Bangemann and Research Commissioner Edith Cresson are expected to attend. *Alan Cane and Reuter*

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NEWS: ASIA-PACIFIC

Tension over HK handover sparks talks

By John Ridding in Hong Kong and John Kampfner in London

Mrs Anson Chan, Hong Kong's chief secretary, is to meet China's top official responsible for Hong Kong next week to address areas of increasing tension concerning the territory's handover to China next year.

The planned meeting with Mr Lu Ping, head of the Hong Kong and Macao affairs office, comes amid serious strains between Britain and China. Concerns about the transition were at the centre of a meeting in London yesterday between Mr Chris Patten, the Hong Kong governor, and Mr John Major, UK prime minister.

Mr Patten and the British government have fiercely criticised China's decision to replace Hong Kong's legislature, elected last year. After an hour of talks with Mr Major in Downing Street, Mr Patten made clear he would continue to oppose such a move.

"We will do nothing which will undermine the credibility or legitimacy of the legislative council," Mr Patten said. "That was our position, is our position and will remain our position. Full stop. End of argument."

"Whatever the preparatory committee does or says about the legislative council, nothing can stop the momentum behind the development of democratic institutions in Hong Kong."

Mrs Chan's talks are expected to cover the need to maintain morale in Hong Kong's 180,000-strong civil service where confidence has been shaken by China's demand that senior civil servants seeking to continue in office after the handover should support a provisional legislature which will replace the existing body.

Mrs Chan, backed by many in Hong Kong for high office after the handover, has opposed establishment of a provisional legislature, raising doubts about whether she will retain a senior position.

Her meeting with Mr Lu Ping and Mr Zhou Nan, director of the Hong Kong office of the Xinhua news agency, China's *de facto* embassy in the territory, has raised hopes the dispute can be eased.

Diplomats in Hong Kong continued to express concerns about the prospects for a smooth transition. They warned the stalemate over the provisional legislature would continue to affect ties between Britain and China and this would obstruct progress on other issues, such as the handover ceremony.

Chinese officials are pushing for a short ceremony in Hong Kong on June 30, 1997, with the main celebrations taking place the following day. Britain is seeking a grander event to mark its departure. "This is a very emotional issue," one Hong Kong-based diplomat said.

In London, Mr Patten said he did not believe the details of the handover were "worth haggling over", but said he was *still confident of the Beijing* government's stated intention to conduct a "solemn, grand and decent" ceremony.

Mr Lu's visit to Hong Kong is prompted by consultative sessions of the preparatory committee, the Beijing-appointed body which will oversee the handover. The sessions will assess proposals for formation of a 400-member selection committee which will set up the provisional legislature and nominate the future chief executive, the first governor of post-colonial Hong Kong.

"*Whatever the preparatory* committee does or says about the legislative council, nothing can stop the momentum behind the development of democratic institutions in Hong Kong," Mr Patten said.

He added: "I'm sure that the rest of the world is going to look with very considerable concern about the way China handles Hong Kong after 1997 and will regard it in some measure as a litmus test about how China is going to behave on the international stage."

Asia's success, Page 8

Japan's surplus falls 38.8%

By William Dawkins in Tokyo

Japan's current account surplus fell 38.8 per cent in February, compared with a year earlier – a slightly smaller drop than the market had expected but seen by economists in Tokyo as enough to ensure continued weakness of the yen.

The decline in the surplus to Y745.9bn ($6.88bn), announced by the finance ministry, means Japan is now likely to report a smaller current account gap in the fiscal year to March for the third year running.

It brings the surplus for the first 11 months of the fiscal year to Y8,202bn, down a quarter on the same period of the previous year. In response to this, and the receding chance of a US interest rate cut, the *dollar hit a 26-month high of* Y108.5 in Tokyo yesterday.

On the financial account, there was a Y1,349bn net capital inflow to Japan in February, the second month running in which money flooded in, as foreign investors rushed to buy Japanese equities.

The Nikkei 225 index yester*day responded to foreigners'* interest by closing at a 50-month high of 21,791.70, though the rise for the day was small, at just 47.53 points. There was Y813bn of net equity investment in Japan in February.

The balance of payments result will help President Bill Clinton and Prime Minister *Ryutaro Hashimoto give US-Ja*pan trade matters a low profile at their summit in Tokyo next week, when both want to concentrate on regional security.

The main feature in the smaller surplus is the Japanese economy's continued tendency to suck in imports when export growth to the US and Europe is slowing. This is partly because of structural economic change in favour of imports and Japan's own recovery.

According to the latest estimate by Mr Jean-Claude Paye, secretary-general of the Organisation for Economic Co-opera*tion and Development*, who is visiting the country, Japanese economic growth will reach 2.5-3 per cent by the end of this calendar year, up to one percentage point ahead of the OECD average.

Japan's surplus in goods and services, excluding financial transfers, fell 55.7 per cent to Y390bn in February, the 15th monthly decline and smallest trade gap in five years. Exports rose 16.6 per cent, while imports were up 46 per cent, completing a 19-month run of rises. Within this, Japan's services account deficit rose 22.4 per cent, chiefly due to growth in foreign travel.

Editorial comment, Page 9

Japan's ruling coalition and opposition last night cleared the way for parliament to adopt this year's national budget by reaching a compromise on an unpopular scheme to use public money to liquidate bankrupt housing loan companies, writes Our Tokyo Staff.

Mr Wataru Kubo, finance *minister, said an agreement* reached at a meeting between Prime Minister Ryutaro Hashimoto and Mr Ichiro Ozawa, leader of the opposition New Frontier party, had been accepted by coalition leaders.

"There will be some revisions, but the main part of the budget will not be affected," he said. The changes affected the Y685bn ($6.3bn) budget allocation for liquidating the *jusen* housing loan companies.

The NFP had sought to remove the *jusen* plan from the national budget and forced the government to issue an interim budget. Last night's agreement appeared to involve *delaying making funds* available for the *jusen* bailout until after agreement on other aspects of a package, including reform of financial supervision.

Parliament may pass the budget today but it remains unclear when the Y685bn for the *jusen* will be approved.

UK praises lowering of trade barriers

By William Dawkins in Tokyo

Japan has made progress in trimming regulations that were hampering economic growth and import access, Mr Ian Lang, UK trade and industry secretary, said yesterday. But he urged faster progress in some specific sectors.

Mr Lang, leading 100 British businessmen on the UK's biggest trade mission to Japan, *reminded his hosts it was* important for Japan's trade partners, as well as Japan, to see that economic liberalisation was comprehensive.

"We see deregulation as a continuing process, but one which has to be pursued with urgency if progress is to be *made... It requires nothing* less than a culture change in the way both government and *business think," he said.*

Speaking at a seminar on deregulation organised by the Keidanren economic federation, Mr Lang welcomed last month's Japanese government deregulation package, but said difficulties remained in testing for compliance with *Japanese industrial standards,* the subject of regular complaints by British exporters.

While official deregulation is slow, Britain has been among the greatest beneficiaries from a surge in imports, a delayed consequence of the yen's former strength as well as the advance of competitive market forces, as underlined by a sharp decline in the Japanese *current account surplus,* announced yesterday.

China rail stations face reform axe

By Tony Walker in Beijing

China will close a third of its 5,000-or-so passenger train stations in an effort to make its overstretched rail system more efficient and market-oriented.

The Xinhua news agency reported that in addition to closing the 1,566 stations, a similar number of freight depots would be axed. Consideration was being given to hiving off specialised railways, departments such as container transport into independent businesses responsible for their own profits and losses.

This would be in line with *reforms of other elements of* the state sector encouraged to be self-sufficient. No indication was given on foreign participation in these ventures, but China is seeking investment in its railway system through equity participation.

A Railways Ministry confer*ence in the port city of Dalian* in north-east China was told that stations to be closed averaged few passengers a day; a large number of freight depots were also idle.

The report gave no clue as to the fate of employees in the stations. China's loss-making railways are heavily overstaffed. Xinhua said the ministry, which plans to invest Yn330bn ($39.8bn) over the next five years, would bring new express trains into operation and upgrade its passenger services.

It would also raise the speed on its main tracks to 140 kilo*metres an hour from 80km/h.* China's railways, which raised fares 50 per cent last October, face rising competition from other means of transport.

Indications that the ministry intended to accelerate the process of reform will be welcomed by foreign suppliers. Siemens and GEC Alsthom are among foreign companies bidding to supply fast trains for a new Beijing-Shanghai service.

A report by the East Asia Analytical Unit in Australia's Department of Foreign Affairs and Trade says railways have been "almost untouched" by *China's economic reforms.*"

Chinese investment in railways as a share of gross national product runs at half the level of countries such as India and Brazil. China ranks 100th in the world in rail track per head of population.

ASIA-PACIFIC NEWS DIGEST

Australia checks Aborigine funds

Australia's new conservative government is to appoint a special auditor to look into the financial affairs of indigenous organisations receiving funds from the Aboriginal and Torres Strait Islander Commission (Atsic), the Aboriginal organisation.

Yesterday's announcement follows alleged irregularities at a number of state-based Aboriginal legal services, and concerns of alleged financial mismanagement in other Aboriginal groups. Atsic handles a budget of A$1bn (US$780m) a year.

"If the special auditor is satisfied an organisation is not acting in a fit and proper manner in terms of its spending of public monies, a directive will prevent Atsic funding that organisation unless exceptional circumstances arise," Prime Minister John Howard said.

The government planned to amend the Atsic Act, to allow an administrator to run a group if it was deemed involved in alleged mismanagement of public money, or if Atsic failed to comply with government directives.

Mr Howard confirmed legislative changes would be made for appointment of the chairperson of Atsic to revert to ministerial selection. Under previous legislation, the appointment was to have become a matter of internal election. The moves are likely to be controversial. Aboriginal leaders are concerned their right to self-determination should not be eroded.

Anxiety had been growing in Australia's white community that, despite the sums directed toward indigenous peoples, health and housing standards remain below the national average.

Last night, Ms Lois O'Donoghue, the present Atsic chair and much respected for her role in negotiating the historic Native Title legislation which was passed in late 1993, said the Atsic board would discuss the proposed changes next week. "The board may wish to make a public statement after these discussions," she said. *Nikki Tait, Sydney*

Green light for Japan sports car

Mitsuoka Motor has received approval from the Japanese Transport Ministry for its new small sports car, company officials said yesterday. The vehicle, equipped with a 1600 cc engine made by Mazda, had cleared safety, noise, emission and *other requirements set by the ministry; officials* said the approval allowed Mitsuoka Motor to produce the car on a commercial basis.

Mr Susumu Mitsuoka, president of the company, which is based in Toyama, western Japan, said his dream had come true. Mitsuoka Motor plans to increase production of the vehicle to 20 units a month from the present six, the officials said.

The ministry rarely approves cars developed by companies other than the main car manufacturers. *Kyodo, Tokyo*

Yeltsin to visit China for talks

Russia's President Boris Yeltsin is to pay a three-day official visit to China from April 24 for talks with Chinese leaders. He will meet China's President Jiang Zemin and other leaders and sign 10 bilateral agreements, officials in Moscow said.

On April 26, Mr Yeltsin will travel to Shanghai, where he is *to sign an agreement on confidence-building* measures along the Chinese border with the presidents of the former Soviet republics of Kazakhstan, Kyrgyzstan and Tajikistan, whose nations also border China.

Mr Yeltsin hopes closer ties with China will strengthen his hand in dealing with the US and Europe, which despite Russian protests, plan to expand the Nato military alliance to eastern Europe. *Kyodo, Moscow*

Loyalty drives Korean votes

John Burton on the regionalism likely to decide the election today

Mention President Kim Young-sam in Taegu and the response is not likely to be favourable. "He's betrayed us," said one *resident of* South Korea's third-largest city.

The cause of the discontent is that Taegu has been at the short end of reforms that Mr Kim has introduced since he became president in 1993.

The city once received enormous economic benefits since *it was the power* base for the three presidents who ruled South Korea between 1961 and 1993. Local companies such as Samsung, Daewoo and Ssangyong grew into global conglomerates under presidential patronage during that period.

But the government contracts and industrial projects that Taegu once got are flowing to other areas, including the south-east port of Pusan, which is President Kim's home region.

"It's a matter of pride, and President Kim has hurt Taegu's pride," said Mr Kim Suk-won, who resigned as the Ssangyong chairman to stand as a candidate for the ruling New Korea party.

Prominent Taegu politicians, such as Mr Park Chun-kyu, have been pushed aside in the ruling party. Mr Park was speaker of the national assembly until he was forced to resign by Mr Kim in 1993.

Now standing as a candidate for the conservative opposition United Liberal Democrats, Mr Park is appealing to the city's sense of grievance. "Taegu was a government area for 30 years, but no longer," he said during a campaign *stop* in Taegu's famed herbal medicine market.

The closely fought election campaign in Taegu represents how regional interests and personalities, rather than ideology, dominate Korean politics.

Each of Korea's three main political parties has a strong regional base: the ruling party in the south east, the ULD in central Korea, and the centre-left National Congress for New Politics in the *south* west.

The outcome of the election today is likely to be determined by the huge cosmopoli*tan Seoul* region, which controls 40 per cent of the parliamentary seats, and Taegu. The government's main opposition in Seoul is the NCNP, while in Taegu *region it* is the ULD and independents.

Some analysts predict that the ruling party could take only a third of the 32 seats in Taegu and the surrounding North Kyongsang province against the two-thirds held at the 1992 general election.

Once a leader in Korea's rapid industrial development, Taegu is now suffering a record number of corporate bankruptcies and a sharp slowdown in the regional growth rate, says Mr Park.

Residents complain Samsung had been expected to build its new car factory in Taegu until it was forced to switch to Pusan to win state approval for the project.

A gas explosion at a subway construction site that killed more than 30 people a year ago led to local criticism that the government was lax in its duties.

Public anger was further aroused when ex-presidents Roh Tae-woo and Chun Doo-hwan, who come from the Taegu region, were arrested last autumn on corruption and sedition charges. "Arresting one president may have been acceptable, but arresting two is too much. It's political revenge," said Mr Song Dok-chin, a Taegu resident.

"If I support President Kim too strongly, I lose a lot of my popularity," admits Mr Kim, the former Ssangyong chairman. "I have to tell my constituents that he has made a lot of mistakes, but he is leading the country in the right direction."

Political observers are hoping a new generation of politicians aged in their 30s and 40s who are standing in the election for the first time may be able to break the regionalism that bedevils Korean politics.

"Younger politicians regard regionalism as old-fashioned as Korea becomes integrated in the global economy," said Mr Kim Sang-woo, a Cambridge-educated opposition candidate in Seoul. "It's now a question of national interests in politics, not regional ones."

South Korea's ruling party is hoping recent North Korean military threats will lead to a last-minute surge of voter support and avert a possible defeat for the government in today's general election, writes John Burton in Seoul.

Some political analysts believe the *security threat will* persuade a large bloc of undecided voters to support the government when tensions appear to be rising.

The Korean media has been dominated by talk of a possible military conflict since North Korea announced a week *ago it would no longer* respect the armistice that ended the 1950-53 Korean war.

The North Korean actions reveal "how serious is the present national security situation" and the consequent need for political stability, said Mr Lee Hoi-chang, campaign manager for the ruling New Korea party.

Critics accuse the government of exaggerating the crisis to attract votes and prevent *the loss of its parliamentary* majority. Some suggest the government has based its campaign strategy on that of Taiwan's President Lee Teng-hui, who won re-election last month in the wake of Chinese military threats.

"Reports about the situation appear to be manipulated by the government for political purposes," said a US defence official in Seoul.

The Korean government has indicated its military forces have been placed on heightened alert, but Mr Park Yong-ok, an assistant defence minister, yesterday *admitted* military readiness remained at Defcon 4, the next-to-lowest level.

Railway sell-off chief decides to quit early

By Charles Batchelor, Transport Correspondent

Mr Roger Salmon, the government official in charge of selling passenger rail franchises, said yesterday he would quit in October, two years before his five-year contract ends.

His announcement was a further setback for rail privatisation after two years of turmoil and negative publicity. It came less than a week before publication of the pathfinder prospectus for the sell-off of Railtrack in May, and when only four of the 25 rail franchises have been sold.

Mr Salmon is understood to have wanted to announce his plans in January, weeks after the successful sale of the first two franchises. But he is believed to have come under intense government pressure to delay his announcement until the privatisation timetable was more advanced.

He said he was quitting early because he had set up the framework for franchising. "I have basically done the things that I was employed to do. The franchising office is a very efficient organisation and a lot more of the franchises will have been sold by October."

Officials involved in privatisation said Mr Salmon's job was particularly demanding. There had been frequent disagreements with government officials and ministers over details of the sell-off, although the officials stressed that no pressure had been on Mr Salmon to leave.

"These have been the most intensive four years I have ever spent," said Mr Salmon, who worked for Rothschild merchant bank for 17 years before taking on his present job.

Mr Clare Short, shadow transport secretary, said Mr Salmon had decided to resign in anticipation of a Labour victory at the next election, which would see the abolition of the office of franchising and of his job. Labour planned to hand responsibility for managing rail franchises to the state-owned British Rail.

Mr Salmon was appointed franchising director-designate in January 1993, and confirmed in the job when legislation authorising privatisation was passed in November of that year. His contract is due to expire in November 1998.

He has been responsible for selling off the 25 train operating companies formed after the break-up of BR. The sale of the first three franchises was finalised in December, marking a turning point in the privatisation programme, which up to then had attracted only criticism. One of the sales was subsequently halted following allegations of irregularities.

Two other franchise have since been sold and the franchising office believes that more than half will have been sold or will be under offer by the time Mr Salmon leaves.

His term of office had previously been marked by controversy. In February, allegations of ticket fraud forced Mr Salmon to withdraw a franchise he had awarded to a management-employee buy-out team to run the second privatised rail line, the London, Tilbury and Southend Rail route.

Mr Chris Stokes, Mr Salmon's deputy and a long-term railman, is believed to be a strong contender to succeed Mr Salmon.

Productivity soars in drugs and chemicals

By Daniel Green in London

Productivity at the UK's chemicals and pharmaceuticals industries has increased at twice the pace of their main international rivals and much of the rest of UK industry during the 1990s, official figures showed yesterday.

Productivity in the two UK sectors rose 51 per cent between 1990 and 1995. The productivity gains in the same industries in the US, France, Germany, Japan and Italy ranged from 9 per cent to 40 per cent.

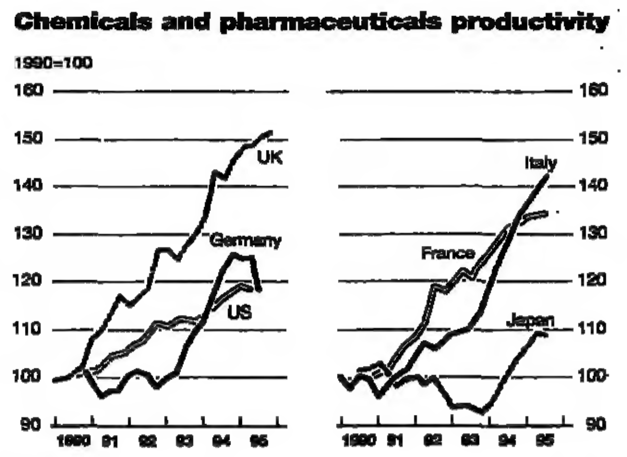
Across the whole of UK manufacturing, productivity rose by 20 per cent over the period, according to the Office for National Statistics in the first of an 18-part series of sector reviews.

The figures cover a period of rapid change. BP, for example, built a petrochemicals plant in Scotland and shut one in Wales. The pharmaceuticals industry no longer includes Boots' drugs business, sold to Germany's BASF. During the period Glaxo bought Wellcome and opened a £700m ($1.1bn) research centre.

The rise in productivity in the UK chemicals and pharmaceuticals industries was driven partly by falling employment, down from 277,600 to 237,700. Unit wage costs fell by more than 10 per cent.

Employment in these sectors has also fallen in the rest of Europe, although not in the US or Japan, says the report.

Chemicals and pharmaceuticals productivity



Source: OCS

The figures cover man-made fibres, where the world centre of production is moving to Asia.

Companies in the chemicals and pharmaceuticals sector, ranging from Glaxo Wellcome to ICI and Courtaulds, appear to be spending much of the gains from extra productivity outside Britain. Outward investment rose from £2bn a year to more than £3bn a year.

About half of outward investment goes to the US. Inward investment was worth £588m in 1994, the best year since 1989.

UK production also rose sharply over the period, with sales increasing by 17 per cent, compared with 21 per cent in France, 15 per cent in the US, 13 per cent in Japan, and 4 per cent in Germany and Italy. The figures take inflation into account.

Production in UK manufacturing as a whole rose by 1.3 per cent. The UK performance came from a relatively low level. Chemicals and pharmaceuticals sales in 1993 were worth Ecu 49.6bn, ahead only of Italy. Sales in France were worth Ecu 60.1bn and in Germany, Ecu 97.2bn, with the US and Japan even further ahead.

Exports accounted for 54 per cent of sales by the chemicals and pharmaceuticals industries in the UK in 1991 and 62 per cent by 1995. The trade surplus rose from £3.3bn in 1991 to £4bn in 1995.

These figures come from 4,300 enterprises, of which 600 had turnover of more than £5m a year and another 600 turnover of less than £50,000. The biggest businesses are in pharmaceuticals and petrochemicals.

The south-east of England dominates the pharmaceuticals sector, while the north-west is the main location for basic chemicals production. The report divides the chemicals, pharmaceuticals and man-made fibres sectors into 24 subsectors.

Siemens wins big immigration data contract

By Stefan Wagstyl, Industrial Editor

Siemens, the German engineering combine, has won a contract to computerise and modernise the British government's immigration and nationality department. The award is one of the most politically sensitive extensions of the private finance initiative, the flagship programme for promoting private investment in the public sector.

Up to 100 experts from Siemens and its subcontractors will be seconded to the department to supervise the design, installation and operation of a computer-based system which will replace the current system of circulating files.

Siemens will be paid only from the savings its reforms generate over the seven years of the contract's life. It believes these could total £150m ($228m) including its share and the government's.

The reform is almost certain to bring job losses among the department's 5,400 staff. The Home Office said that 900 fewer posts would be required if the workload stayed unchanged.

The Home Office said the programme offered "a unique opportunity for the transformation of the immigration and nationality department". But the CPSA, the government officials' trade union, said it opposed bringing private companies, especially multinationals, into "very sensitive areas of work".

The department handles applications for visa extensions, asylum, naturalisation and passports. It has struggled to keep abreast of a growing volume of work and to cut a big backlog in paperwork. Nevertheless, it has sometimes been accused of long delays in decision-making, notably in the treatment of people seeking asylum, of whom there were 69,650 at the end of December. The department says its work requires it to carry out many complicated checks.

Siemens said a computer-based system would allow the department's workflow to be speeded up. Siemens' UK subsidiary won the contract ahead of EDS, the data-processing affiliate of General Motors, and Andersen Consulting, the management consulting arm of Arthur Andersen. Siemens' main sub-contractor is Perot Systems, the computer consulting company run by Mr Ross Perot, the US entrepreneur and former presidential candidate.

The UK contract includes the purchase of computer equipment, software development and training hundreds of staff.

Labour leader seeks to reassure NY financiers

FT Political Staff in New York and London

Mr Tony Blair, leader of the opposition Labour party, yesterday set out to sell the modernised Labour party to New York's financial establishment, vowing that a government headed by him would make the UK a "safe bet" for investment from other countries.

Mr Blair will today pledge that British citizens on middle incomes will not be penalised by a Labour government. His party has yet to finalise its tax plans, but it is understood that Mr Blair has already ruled out income tax rises for those earning up to £40,000 ($60,800) a year.

At this stage, Labour has not made a decision about whether there will be a new, higher rate of income tax. But Mr Blair has decided that those on middle incomes – by which he means people earning around £30,000 to £40,000 a year – will be protected.

Mr Blair arrived in New York yesterday for meetings with Mr George Soros and other international investors and he will meet President Bill Clinton in Washington on Friday.

In a speech to the UK-US Chamber of Commerce, he will say that he values wealth creators and entrepreneurs and has no intention of imposing penal tax rates on them. Mr Blair will pour scorn on Labour leftwingers' traditional view of tax rises.

He will also say that his preference will be to reduce taxes in general and attack the government for bringing teachers, policemen and others on middle incomes into the upper rate tax bracket.

"He wants to tell them that "new Labour" is real and that it has changed fundamentally since the last time they knew the party in power," said a Blair aide. "We are moderate, realistic and committed to long-term macro-economic stability."

Last night Mr Blair held a private meeting with US investors. The meeting was organised by BZW, the investment bank, and Mr Blair told the 24 bankers and fund managers, including representatives from Morgan Stanley, Lazard Frères and Merrill Lynch, that UK tax rates must be competitive internationally to help attract international business investment".

His main message was that he had ditched Labour's previous attachment to high levels of public spending and protectionism. "I am a passionate free trader and unashamed anti-protectionist," he said.

At tomorrow's meeting with Mr Clinton the Labour leader is expected to explain why he has adopted a policy of backing Britain's Conservative government in his approach to the Northern Ireland peace process.

The twin aims of the trip are to persuade international investors that their money would be safe in the UK under a Labour government and also to discuss with senior White House staff common problems facing left-of-centre parties in the UK and US.

Minister faces pressure over entry to new ERM

By Gillian Tett and James Harding

Mr Kenneth Clarke, the chancellor of the exchequer, came under renewed pressure yesterday from within the governing Conservative party to rule out any UK re-entry into a new European exchange rate mechanism.

Mr John Redwood, a senior Eurosceptic Conservative and challenger for the party leadership last summer, insisted that Mr Clarke should instead "warn Europe . . . that the single currency project is destined to split the European Union."

Mr Clarke is due to fly to Verona in Italy tomorrow for a meeting of European Union finance ministers, to discuss the relationship between those inside and outside any future single currency.

The meeting is likely to present Mr Clarke with a difficult battle, since the UK is now virtually isolated over how a new exchange rate mechanism would operate if a single currency proceeds, as planned, in 1999.

Most EU countries, led by France and Belgium, want countries outside a single currency linked to the single currency area through a new ERM system. Even Denmark – which, like the UK, has indicated that it will not join a single currency – has voicedits support for this idea. However, UK officials fiercely oppose any UK re-entry into a new ERM.

Mr John Major, UK prime minister, has flatly ruled out the possibility. And although Mr Clarke has not quite followed suit, he insisted there was "no case for a new ERM" in a letter to Mr Lamberto Dini, the Italian prime minister, earlier this year.

Instead, the UK is proposing that the European Union should adopt inflation targets for countries outside a single currency. Nevertheless, some officials in mainland European countries still believe that the UK will eventually soften its stance.

One European Commission official said: "What people are really doing now is staking out their negotiating position."

But some Conservative MPs warned that Mr Clarke would face pressure to resign if he gave any signal in Verona that he would yield over the issue.

Farmers may sue over BSE

By Deborah Hargreaves in London

Farmers are considering suing animal feed companies for negligence over the outbreak of the bovine spongiform encephalopathy epidemic. BSE, or "mad cow disease," is believed to have been caused by contaminated feed given to cattle in the early 1980s.

"Farmers are looking at all possible options for redress, but there are a number of potentially important legal hurdles to overcome before they can go to court," said a legal adviser at the National Farmers' Union.

Until 1988, protein-rich cattle cake contained meat and bone meal made from the remains of sheep and cattle, some of which was contaminated with scrapie, a sheep disease similar to BSE. Scientists believe that changes in rendering processes allowed the BSE agent to pass into feed.

Farmers can try to prove negligence on the part of feed companies for providing contaminated feed or they can sue companies under contract law for selling products which had a deleterious effect on their animals. However, there are usually six-year time limits in place for cases to be brought.

"Many farmers are making substantial losses and are looking for compensation from any source," the NFU said.

Farmers are angry that they are being blamed for something over which they had no control. "People say to me, 'why were you feeding cows to cows,' but I had no idea that was in the feed," said Mr Marshall Taylor, a west of England dairy farmer.

The feed companies maintain that they were not negligent in using meat and bone meal. "We originally thought the rendering process took place at a high enough temperature to sterilise the meal. When it was first possible that this might not be so, we excluded it," said Mr George Paul, chief executive of BOCM Pauls, a UK animal feed company.

The government banned the use of meat and bone meal in cattle and sheep feed in 1988 and more recently for pig and poultry feed.

Accountancy thrives in the climate of privatisation

By Jim Kelly, Accountancy Correspondent

The Big Six British-based accountancy firms dream of identifying new business skills which they can sell to clients. In the very best of these dreams, they imagine that by developing such expertise they establish a long-term advantage on their competitors.

But even in their dreams they hardly dare imagine that the skill they have discovered will not only generate a stream of revenue in itself, but will provide the ideal base from which to sell a range of other services to the same client.

One example is Coopers & Lybrand's lead in privatisation work, particularly in the area of the privatisation of state telecommunications. This is a client service which appears to have delivered the dream in all three phases: an initial advantage, a long-term lead and a platform for diversification.

The latest survey by *Privatisation International*, the industry magazine, tells a remarkable story. More than a decade after heading up the trail-blazing privatisation of British Telecommunications, Coopers & Lybrand were involved in privatisation assignments in 1995 worth $22bn worldwide – with KPMG the nearest rival on $16bn.

League of privatisation advice by UK's 'Big Six' accountancy firms

Firm	Assignments total 1994	Assignments total 1995	Worldwide value ($m)
Coopers & Lybrand	379	397	21,511
KPMG	208	99	15,548
Arthur Andersen	155	n/a	n/a
Price Waterhouse	137	344	11,623
DTTI	118	130	1,511
Ernst & Young	-	75	9,783

Source: Privatisation International

Financial advisers outside the accountancy and law sectors with assignments of greater value from privatisation than Coopers' were the merchant banks SBC Warburg, Goldman Sachs, and CS First Boston – at, respectively, $27bn, $23bn and $22bn.

In 1995, Coopers took on 397 assignments in the sector compared with Price Waterhouse in second place among the accountancy firms with 344. Coopers worked in 77 countries on these projects. So did the initial advantage of the BT project help it gain a global advantage?

"We were terribly lucky – we were the incumbent auditors at BT at the time," admitted Mr Peter Benson, head of Coopers & Lybrand's International Privatisation Group. More to the point, Mr Benson was the incumbent auditor. "I ended up here simply because I was the audit partner at BT – I was a computer auditor – the feeling was that they had to get themselves better organised. As I came in Mrs Thatcher came to power. The whole thing rolled from there."

The advantages of privatisation as a line of business were immediately apparent: "It's profitable, much better than audit work in that you are able to charge what it costs you to do. We don't take success fees – very rarely. We don't make super profits out of it, but we are able to turn an honest penny."

As Thatcherism became associated with privatisation around the world, so Coopers & Lybrand was able to become associated with what it sees as a highly successful large-scale example of the policy in action.

"It was a model," said Mr Benson. As a result, even competitors concede that Coopers still picks up about half of all such projects offered around the world.

Coopers was also able to boast that it had unrivalled experience. "We found that we got a head start both as a country and as a business because of the great swathe of projects in the 1980s. We found that building on that expertise we could take it substantially out into the world," said Mr Benson.

This process has been managed from London. The privatisation group advises Coopers' local national firms and can parachute in expertise when required.

Privatisation is, of course, destroying its own market. It is estimated that more than 10,000 enterprises have been transferred to the private sector worldwide. But Mr Benson sees privatisation as the beginning of a relationship with the client, not the end.

Each privatisation involves two potential clients: the state and the entity itself. "We would much rather advise the enterprise than the government," said Mr Benson. The enterprises live on, requiring advice on tax, audit, systems, management, regulation, employee benefits, pensions and much more.

What is more, the market is a long way from being exhausted. While the front-runners like the UK, Thailand and Mexico may present fewer opportunities, newcomers like India, Portugal, Argentina and Indonesia offer new business. There is still potential in Europe – particularly in Spain and Italy. Furthermore, privatisation is itself developing to embrace contracting out, state joint ventures, and infrastructure financing such as the UK government's Public Finance Initiative.

In spite of Coopers' history it is not alone in this market and other members of the Big Six would claim to be catching up quickly.

But there is little doubt that Coopers has successfully preserved an initial advantage in telecommunications and nurtured skills and expertise to keep the lead in a market which provides an open door to future growth.

UK NEWS DIGEST

Bondholders keen to open lawsuits

THE BARINGS COLLAPSE

Investors who bought bonds from the Barings merchant banking group a year before its 1995 collapse applied to the Companies Court in London for leave to sue the bank, its directors and the three brokers involved in the £100m ($152m) bond issue. The Barings 9¼ per cent Perpetual Noteholders Action Group plans to start proceedings against Barings plc and Bishopscourt Ltd, the former Baring Brothers & Co, both of which are now in administration.

The investors plan to include all Barings' directors in the suit. In addition, the suits will target Hoare Govett Corporate Finance, the UK equities arm of ABN Amro of the Netherlands; Barclays de Zoete Wedd, the investment banking arm of Barclays Bank; and Cazenove, the independent brokerage house.

The bondholders allege a combination of omissions and untrue or misleading statements in the listing particulars for the perpetual notes. As holders of subordinated loan notes, the bondholders rank close to last among Barings' creditors. Last year, they attempted to sue Mr Nick Leeson, the trader whose dealing losses in Singapore led to Barings' collapse. The suit was taken over and abandoned by the Serious Fraud Office.

● Mrs Lisa Leeson, the wife of jailed Barings trader Mr Nick Leeson, has been appointed a flight attendant with Mr Richard Branson's Virgin Atlantic airline.

George Graham, Banking Correspondent

HK governor meets Major

Mr Chris Patten, the Hong Kong governor and former Conservative party chairman, sought last night to dispel speculation that he intended to return to Westminster politics shortly after the transfer of the colony to China next year. Speaking after talks at Downing Street with Mr John Major, the prime minister, Mr Patten said the question of a role for himself in the party had not arisen. Suggestions that a safe by-election seat might be found for Mr Patten following the handover intensified last month after a visit to Hong Kong by the prime minister. Several Conservative rightwingers reacted furiously to the possibility that Mr Major regarded Mr Patten as a possible centrist "heir apparent". Mr Patten masterminded the Conservatives' 1992 election victory but lost his own seat in the House of Commons.

John Kampfner, Westminster

Personal View, Page 8

Cash for Maxwell creditors

Administrators to the collapsed business empire of Robert Maxwell yesterday announced that they are to pay a fourth dividend to creditors of 3.5 per cent on April 18 – increasing the total dividend so far paid to 34.5 per cent or £725m ($1.1bn). Price Waterhouse, the administrators to Maxwell Communication Corporation, said their previous estimate of the final dividend was unchanged at between 38 per cent and 43 per cent. In addition creditors may benefit from outstanding legal actions being taken on their behalf. Mr Mark Homan, for Price Waterhouse, said the latest dividend had been paid after the settlement of a series of disputes with creditors. As a result the administrators had been able to release funds reserved to meet potential claims.

Jim Kelly, Accountancy Correspondent

China orders save steel jobs

Cleveland Structural Engineering has announced 30 redundancies but averted the threatened loss of a further 120 jobs thanks to orders for two Chinese power stations and for fabrication work from British Steel. The north-east England steel fabricator, part of Trafalgar House, expects its present workload including UK road bridge contracts to provide job continuity for its remaining 733 employees for the rest of 1996. The company completed work on the Tsing Ma Bridge in Hong Kong 15 months ago.

Chris Tighe, Newcastle upon Tyne

Truck sales 'reach plateau'

A two-year recovery in the UK's truck market has reached a plateau likely to extend to at least the end of this year, said Iveco-Ford, the market leader. Total truck sales this year are expected to be little changed from last year's 52,000, said the company in a comment on statistics from the Society of Motor Manufacturers and Traders. The market stagnation threatens a further increase in the intensity of a sales war which has already caused sharp changes of fortune for some of the industry's major players, this year. Leyland Daf and ERF have both come under pressure from Iveco-Ford and Scania. However, both Scania and Iveco Ford have begun to feel the full benefit of investments in new models now reaching the UK market.

Registrations of trucks (Jan-Mar '96)

	Volume (Units)	Volume Change (%)	Share (%) J-M '96	Share (%) J-M '95
Trucks (over 3.5 tonnes)				
Total	12,822	-2.5	100.0	100.0
Imports	7,840	-0.5	61.1	59.8
Iveco group* (Fiat)	3,029	+17.4	23.6	19.6
Leyland DAF (DAF Trucks)	2,238	-18.8	17.5	21.1
Mercedes-Benz (Benz)	2,177	-7.1	17.0	17.8
Scania (Investor)	1,731	+18.3	13.5	11.1
Volvo	1,512	-7.3	11.8	12.4
MAN	673	+2.9	5.2	5.0
ERF	545	-28.1	4.3	5.7
Renault	453	-9.4	3.5	3.5
Of which Heavy Trucks (over 15 tonnes)				
Total	7,897	-5.9	100.0	100.0
Scania (Investor)	1,731	+18.3	21.9	17.4
Volvo	1,419	-5.7	18.0	17.5
Leyland DAF (DAF Trucks)	1,190	-20.7	15.1	17.9
Iveco group** (Fiat)	858	+27.5	10.9	8.0
Mercedes-Benz (Benz)	841	-23.7	10.7	13.1
ERF	545	-28.1	6.9	9.0
MAN	480	-8.4	6.1	4.5
Renault	331	+11.5	4.2	3.5

(Names in brackets indicate ownership)
*Includes buses and light four wheel drive utility vehicles.
**Includes Iveco Ford and Seddon Atkinson.
Source: Society of Motor Manufacturers and Traders and industry estimates.

John Griffiths, Industrial Staff

Rover to shed dealers

Rover Group, an offshoot of BMW, is to cut its dealer numbers in Britain by up to 30 per cent as part of a restructuring expected to require heavy investment by companies wishing to stay with the franchise. The restructuring, which could result in up to 150 of the current 511 dealers leaving, is to be completed within two years. "The whole thrust of this reorganisation is to create a business in which premium-positioned cars are sold through premium outlets seeking lifetime relationships with customers," said Rover.

Rover and BMW have made clear that Rover's forthcoming cars are to be positioned ever more firmly up-market, and that a reduction in UK market share – to between 9 and 10 per cent from 13 per cent a year ago – is an inevitable part of the process.

John Griffiths

By-election threat to PM

Voters from the Midlands constituency of Staffordshire South East go to the polls today in a by-election which Conservative and Labour strategists see as the most significant test of their public support in the run-up to the general election. Victory for the opposition Labour party – which is widely expected to overturn a Conservative lead of almost 7,300 – would reduce the government's Commons majority to one. Today's by-election is a test of Labour's claim that under Mr Tony Blair, the party leader, it can win votes directly from the Conservatives among relatively prosperous communities.

Richard Wolffe, Birmingham

Cinema/Nigel Andrews

Cod-mythic tale of fatherhood

MIGHTY APHRODITE
Woody Allen

CITY HALL
Harold Becker

BROKEN ARROW
John Woo

NELLY AND MR ARNAUD
Claude Sautet

I first saw Woody Allen's *Mighty Aphrodite* at the Venice Film Festival, the perfect venue for this fitful cod-mythic comedy. I kept envisioning it as a modern-dress Tiepolo painting.

Here were a scatterbrained nymph (Mira Sorvino) and a menopausal demigod (Woody Allen) chasing each across that action-packed human firmament called New York. And a Tiepolo title would surely do justice to the sense of some cloudy but overbearing subtext? We could call it "The Battle Between Veiled Autobiography And Fiction" – Allen playing a loving foster father in search of the true parent of his three-year-old "son" – or possibly "Comedy Is Cast Out Of Heaven By Didactic Self-Portraiture."

We are offered Allen as a middle-aged sportswriter whose wife Helena Bonham Carter is too busy opening art galleries and chain-smoking to reproduce. So they adopt a son, only for inquisitive Allen to find three years later that this gifted, school-excelling boy's biological mom is a dizzy prostitute (bubblingly played by the Oscar-winning Ms Sorvino). Appalled at this genetic affront and assailed by the girl's own mate-seeking attentions, he strives to pair her off with a dimwitted boxer. That way, at last, genes can mix like with like while our hero gets back to fostering art, genius and neurosis.

Being an Allen fan is a difficult life. No sooner are you wonderstruck by *Manhattan* than you are poleaxed by *Stardust Memories*. Just when you think he has been ground into the dust by *l'affaire Mia*, he soars skyward with *Husbands And Wives*. And having achieved cruising altitude with *Manhattan Murder Mystery* and *Bullets Over Broadway*, he goes into free fall again – albeit with Tiepolesque elegance – in this comedy of unclear intentions.

Some scenes are passably funny, like Allen's attempt to nerve himself for a meeting with Sorvino's pimp. (She: "You're a coward" He: "Only in actuality"). Other gags, running or otherwise, are careworn and ill-calculated. The Greek chorus that breaks into Brooklyn-Jewish vernacular is felicitous once, maybe twice or thrice. But when they trip across Taormina's *teatro antico* for the umpteenth time, to the Broadway strains of "Y-o-u d-o something for m-e", we feel we have overdosed on ethno-comical incongruity.

We also wonder where this multi-strand film is tending – until the close when we have the clinching coda of the actor/author retiring into his own self-image as a perfect father. We see Woody, in an extended scene, shopping for toys. We see Woody reading fairy stories aloud as he sits in a loving three-way huddle with boy and wife. Perhaps the whole movie was conceived as a response to the judge who rapped his knuckles for his inadequacy as a father? Perhaps we have been gathered for this buffet of jokes and plot whimsies so that we can hear the host's after-dinner speech in praise of his own caring, sharing parenting.

★

City Hall gives us a New York of a different colour. Not so much Tiepolo, more Edward Hopper after eating a can of jumping beans. Al Pacino plays the Mayor, determined to huff and puff around the city eliminating corruption, even as a little black boy's death in police-Mafia crossfire threatens to open a can of a different kind – worms.

Why was the convicted Mafia drug dealer out the streets at all? Might a word like bribery, or "bwiberwy" in that hypnotic patois we call Pacino-speak, be pertinent? Did money pass from the Mob to the judiciary?

So many questions. And instead of sitting down to answer them under exam conditions, the film runs all over New York and New Jersey proving surprisingly enjoyable, despite the chaos of a five-man screenplay. Since most of the cast are on parole from Woody Allen movies – John Cusack as the Deputy Mayor and chief legworker, Judge Martin Landau, Democratic leader Danny Aiello – they know how to crack out lines. And since Pacino himself has now ascended to a higher Parnassus of acting, his every bark, shrug and line-reading is pure delight.

★

As an airforce pilot who steals two nuclear missiles during a test flight with intent to hold America to ransom, John Travolta in *Broken Arrow* has some serious questions to answer.

First, where did he get that haircut? Bristling and changing colour in bright sunlight, it does almost as much acting as its owner and rather more than co-star Christian Slater. Secondly, when did Travolta and flying buddy Slater, who after being ejected from the bomber survives to stalk the desert as his friend's nemesis, receive their Teflon skin grafts?

For all the fights, falls and explosions these two endure – and with ex-Hong Kong action prodigy John Woo in charge there are many – neither displays more than a cut lip and look of mild discomposure. This puts the burden of emotion on the audience, who at the press show tended to process terror into hilarity.

Into free fall with Tiepolesque elegence: Helena Bonham Carter and Woody Allen in 'Mighty Aphrodite'

The most incredulous laughter accompanied the film's far-fetched final showdown and the appearance and antics *passim* of Samantha Mathis as a sexpot desert ranger. Meanwhile the most admiring guffaw was reserved for Travolta's steely-timed rebuke to a trigger-happy henchman during a jeep chase: "Would you mind *not* firing at the thermonuclear weapons?" But then Travolta's timing and seriocomic élan are a joy throughout.

Broken Arrow takes implausibility and flies fast and high, careless of eluding radar. If it displayed any more ludic self-disbelief, it would be the very model of postmodernism. As it is, adding virtuoso effects and set-pieces to the hints of Armageddon seriousness, it is that even more delectable thing: an action film that will satisfy both gullible fans and scapegrace sceptics.

Claude Sautet's *Nelly And Mr Arnaud*, made a mere ocean away, could be set on another planet. Small lives describe tiny seismic patterns in Paris apartments. When hard-up Nelly (Emmanuelle Béart) accepts a gift of money from a man she barely knows – the wealthy, elderly Monsieur Arnaud (Michel Serrault) – she feels bound to accept his further offer of a job typing out his new book of travel memoirs.

As well as wages, Arnaud will offer wisdom, talk and tea. He will gaze over Nelly's shoulder, encouraging her to rewrite and edit. And he will peer a little more closely into her heart as she begins to transfer her love life from a lazy live-in boyfriend to Arnaud's young publisher (Jean-Hugues Anglade).

Less happens here even than in Sautet's recent *A Heart In Winter*, where love and misunderstanding grew slow as an icicle. Here, in a movie warmer if not faster, absence of drama becomes its own drama. Motes of mystery dance about in the shafts of reticent enlightenment about each other's lives and minds that the young girl and old man share. And if Béart plays her Columbine a touch too passively Serrault – best known hitherto as chief scenery-chewer in *La Cage Aux Folles* – is a richly subtle Pantaloon. Arnaud's entire life is sketched out in tiny shrugs, moues, sighs and wistful sarcasms: a one-time globetrotter whose world has shrunk to a last unrequited love in a last unhurried old age.

To realise how good this French film is, you need only see what an American does with same minimal plot tools. In Michael Tolkin's *The New Age* (18, National Film Theatre) Judy Davis and Peter Weller fall in and out of love as a pair of bickering Beautiful People in Beverly Hills. But Tolkin, who wrote *The Player*, puts almost no ironic or insightful distance between himself and his navel-gazers. The film ends up seeming less a looking-glass held to Lotusland than a hall of mirrors, reflecting the infinite complicity of self-love in urban California.

Opera

A borrowed 'Nabucco'

The latest building-block towards the Royal Opera's ambitious complete Verdi cycle is *Nabucco*, which arrived on Tuesday and will take its place in this year's Verdi festival in the summer. Like some of the other new productions planned for the cycle, it is borrowed, in this case from Welsh National Opera, where it raised hackles last September.

As yet it is early days, but the commitment to the operas from Verdi's "galley years" is looking ominously half-hearted. *I due Foscari* last year, borrowed from Ludwigshafen, was a stilted affair. *Il Corsaro*, due to be borrowed from Turin, has been replaced by a couple of concert performances. This *Nabucco* is a long way from being the strong argument in support of the opera that the Verdi festival should be standing up to make.

Have no doubt that there is a case worthy of arguing. Verdi's third opera may have its fair share of bouncy cabalettas and brass band marches, but as the final scene leads from the unaccompanied chorus "Immenso Jeovha" into Abigaille's intensely compressed death scene, it is clear Verdi has his sights on raising the old forms to a more exalted level. Perhaps the producer, Tim Albery, felt he was doing the same when he set the scene in a Nazi concentration camp, but it is all too easy to cheapen both by the association.

It probably will not console those who booed the production team to know that the worst excesses of the staging had been jettisoned on the way up from Cardiff. Despite leaving behind Nabucco's Diana Dors outfit and Abigaille's army fatigues, it still looks as though Albery and his designer Antony McDonald have raided the avant-garde producers' second-hand wardrobe (the men of the chorus find themselves stripping down from Klu Klux Klan to tasteful lime-green evening dresses and long black gloves).

The theme of the production remains the suffering of the Jewish people through into our own century (cue Palestinian terrorists and Nazi guards) though it has now been streamlined much to its benefit. The sets are gloomy and starkly modernist, and sometimes unhelpful acoustically by keeping the singers too far back. But there was little justification for losing the intended conductor, Edward Downes, who backed out after announcing that he found the production unsympathetic, and the Royal Opera has done well with his replacement, Wladimir Jurowski.

Nabucco and Abigaille are played as pistol-wielding Babylonians, whose ammunition is an unceasing supply of decibels. Alexandru Agache's baritone has grown simply huge. There are enormous reserves of power residing in these lungs and it is a shame they cannot be harnessed to form long vocal lines in which the quality remains consistent. The result is that isolated phrases shake the foundations, but his main solos fall short of expectation.

It is unlucky for Nina Rautio that Abigaille's big moments come in the first half. Her thick, heavy, Russian soprano takes time to wind up its mechanism and in her main aria she was still in the process of getting the voice to move about and stretch up to the top notes (each high C came closer to its target, but none actually hit it). Her fearsomely powerful soprano is what we have come to expect in this role, though Verdi surely wrote for *singing with more grace and agility*.

Leah-Marian Jones as Fenena complemented her with a bright, clear mezzo; Dennis O'Neill made a suitably Italianate Ismaele. But it was Samuel Ramey as Zaccaria who brought distinction to the evening by ignoring all that was going on around him and *concentrating on the core virtues of* Italian bel canto style – an elegant line, even a few decorations, vocal qualities that would have been recognised in the 1840s. An "authentic" *Nabucco* would still be an eye-opener.

Richard Fairman

Further performances until April 27.

Strindberg dramas

Dream-logic and a power-struggle

The Sturdy Beggars company has mounted an effective staging of that most challenging and expressionistic of Strindberg's works, *A Dream Play* (1901), in the charmingly glass-roofed Bridewell Theatre off Fleet Street. Light from the sky still entering at the start of the evening may be aptly taken to symbolise the descent of divine Indra's Daughter from the ethereal realms. To earth she comes, as Agnes, to survey the immense panorama of human suffering, to understand what it is like to live in a world of fact rather than thought, to *exist*.

Strindberg's extravagant flights of Buddhist-Christian fantasy, whose dream-logic presupposes that the world is essentially a dream and that the theatre is no less real than the world, may not appeal to all, but his main images have a peculiar fascination: the castle that seems to be growing in the distance; the ever-shut opera house door with the clover-shaped hole behind which may lie "the riddle of the world"; the officer pacing in front of that door for seven years in pursuit of his singer-bride; the officer's inexplicable return to school to be re-taught his multiplication tables.

They are more often mundane, comic and, indeed, autobiographically-founded images than mystical ones; and no matter how far-fetched the dramatic thinking, Strindberg cannily eludes pretentiousness.

Jonas Finlay's production, using his own translation, gives us two acts of respectively eight and six continuous scenes and comes across as admirably concise. The simple set – a candle-bearing tree, a huge tilted wooden drawer, a semi-transparent screen – serves perfectly, and adroit use is made of trapdoors and of sound-effects. Small-scale though the staging is, one does not feel that Strindberg's elaborate conception is being scamped.

There are a couple of theatrical coups (the lurid assembly line of torture, the naked Poet in an actual mud-bath), and in any case the cast is rather large, a dozen. Notable among them is John Baxter's *capering, Cleese-like Officer*; Michael Woodwood's cadaverous Advocate, Luke Shaw's Strindberg-lookalike Poet, and Alexandra Mathie's warmly sympathetic Agnes.

Paul Driver

The Young Vic's new staging of Strindberg's *Miss Julie* is a disappointment. Because the director is Polly Teale – who has a good record for dramatically vigorous stagings of period works – it was easy to hope for more. There is an excellent set by Robert Innes Hopkins, a fresh translation by Meredith Oakes, and a first-rate performance by Cara Kelly as the maid Christine.

But these do not suffice. Teale over-directs the wordless episodes, and under-directs the spoken passages. The productions's *Big Moment occurs when Miss* Julie and her father's valet, Jean, have some prettily stylised sex on the kitchen table. It is possible that, by putting onstage what Strindberg left out, that Teale unbalances the power-struggle that goes on between upper-class Miss J. and working-class J. But it is definite that this *sex is too stylised to convince*.

Particularly over-artful in its supposed artlessness is the way that Susan Lynch, as Miss Julie lying on her back on the table and yielding to sexual excitement, sweeps a vase of red flowers over with her arm. And why pay such attention to the big physical scenes unless you get the little ones right? Lynch's upper-body posture is so poor that nobody could believe her as an upper-class girl of the last century. Her face is often stiff, ill at ease, inexpressive.

Meanwhile the words – the level on which Strindberg's real conflict takes place – between Julie and Jean are underinflected. As Jean, John Hannah is at his best whenever Julie is away; he has edge, nuance, wry humour. Oakes's translation *works fluently without drawing attention* to itself; Hopkins's set gives us a believable kitchen interior and, centrally placed, the crucial large flight of stairs to the realms above where Miss Julie has her home and where her acquaintances are dancing. Kelly's Christine is wonderful to watch just when she is carrying a plate across the stage; or *stands and listens to* Jean. Her acting has none of the calculated "expressiveness" to be found elsewhere in the staging, but it is simply full of life, a life lived beneath stairs, a common-sense practical life with no especial ambition, an ordinary life whose simple decency transcends the sexual politics played out by *Jean and Miss Julie*.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE

■ ADELAIDE

EXHIBITION
Art Gallery of South Australia
Tel: 61-8-2077000
● 1996 Adelaide Biennial of Australian Art: fourth edition of this biennial exhibition surveying Australian contemporary art. The Biennial features the work of 20 artists; to Apr 14

BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Das Sinfonie Orchester Berlin: with conductor Frank Morgenstern and pianist Seiko Ezawa perform the polonaise of Tchaikovsky's Eugene Onegin, his Piano Concerto No.1 in B minor and Symphony No.4 in F minor; 8pm; Apr 12

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2123333
● The National Youth Orchestra of Great Britain: with conductor János Fürst and pianist Leon McCawley perform works by Mozart and Bruckner; 8pm; Apr 13

■ CHICAGO

OPERA
Shubert Theater
Tel: 1-312-977-1700
● The Cave: multi-media opera by composer Steve Reich and video artist Beryl Korot exploring the biblical story of Abraham from the points of view of three different cultures: Israeli Jews, Palestinian Moslems and Americans; 8pm; Apr 12, 13

■ COPENHAGEN

EXHIBITION
Charlottenborg Exhibition Hall
Tel: 45-33 13 40 22
● Danish Spring Art Exhibition: exhibition of works by 116 contemporary artists. The display includes paintings, sculpture, graphic works, photography and architecture; to Apr 14

■ DETROIT

JAZZ & BLUES
Detroit Orchestra Hall
Tel: 1-313-833-3362
● Detroit Symphony Orchestra: with conductor/vocalist Bobby McFerrin and trumpeter Arturo Sandoval perform jazz music; 8pm; Apr 12, 13

■ FRANKFURT

EXHIBITION
Jahrhunderthalle Hoechst
Tel: 49-69-3601240
● UMBO - Vom Bauhaus zum Bildjournalismus: retrospective exhibition devoted to the work of photographer Otto Umbehr, also known as Umbo. The display includes some 100 works from all stages of his career; to Apr 13

■ GOTHENBURG

CONCERT
Göteborgs Konserthus
Tel: 46-31-7787800
● Malmö Symfoniorkester: with conductor Paavo Järvi perform Schubert's Symphony No.3 and Bruckner's Symphony No.3; 3pm; Apr 13

■ HELSINKI

DANCE
Opera House
Tel: 358-0-403021
● Don Quixote: a choreography by Patrice Bart after Marius Petipa to music by Minkus, performed by the Helsinki Ballet. Soloists include Nina Hyvärinen, Kare Länsivuori, Pekka Yli-Merttila and Anu Sistonen; 7pm; Apr 12, 16

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Gothenburg Symphony Orchestra: with conductor Neeme Järvi perform Sibelius' The Oceanides, Symphony No.4 in A minor and Symphony No.1 in E minor; 7.30pm; Apr 13
Royal Festival Hall
Tel: 44-171-9604242
● The Mask of Orpheus: by Birtwistle. Semi-stage performance by the BBC Symphony Orchestra and the BBC Singers, conducted by Andrew Davis. Soloists include Jon Garrison, Peter Bronder, Jean Rigby and Anne-Marie Owens; 7pm; Apr 12
St. Martin-in-the-Fields Church
Tel: 44-171-9300089
● Feinstein Ensemble: with conductor Martin Feinstein perform works by Vivaldi, Pachelbel and J.S. Bach; 7.30pm; Apr 12
OPERA
London Coliseum
Tel: 44-171-8360111
● Tosca: by Puccini. Conducted by Alex Ingram and performed by the English National Opera. Soloists include Janice Cairns, David Rendall and Phillip Joll; 7.30pm; Apr 13, 18
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Nabucco: by Verdi. Conducted by Wladimir Jurowski and performed by The Royal Opera. Soloists include Nina Rautio, Leah-Marian Jones, Jennifer Rhys-Davies and Dennis O'Neill; 7.30pm; Apr 12, 17

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Bach Choir of London: with conductor Sir David Willcocks, the Fairfield Orchestra, soprano Marvis Martin, mezzo-soprano Marietta Simpson, tenor Frederick Urrey and bass John Cheek perform works by J.S. Bach, Elgar and Handel; 3pm; Apr 14
OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● Roméo et Juliette: by Gounod. Conducted by Edoardo Müller and performed by the Metropolitan Opera. Soloists include Ruth Ann Swenson, Jane Bunnell and Francisco Araiza; 8pm; Apr 12, 18

■ OSAKA

CONCERT
Festival Hall Tel: 6-231-6985
● Candide: by Bernstein (in Japanese). Concert performance by the Century Orchestra Osaka with conductor Yutaka Sado; 6.30pm; Apr 12

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Peer Gynt: by Grieg. Performed by the Orchestre National d'Ile-de-France with conductor Jacques Mercier. Soloists include soprano Pia Freund and baritones Hans Lyaman and Sören Lillkung; 8.30pm; Apr 13
FESTIVAL
Musée du Louvre
Tel: 33-1 40 20 50 50
● Classique en Images 1996. Quatrième Biennale de la Musique Filmée: the fourth edition of this biennial festival devoted to film and music. From Apr 12 to 15 an international competition for new audiovisual productions is held; to Apr 15

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Württembergisches Kammerorchester Heilbronn: with conductor Jörg Färber and violinists Nobuko Imai and Adelina Oprean perform works by Vivaldi, Telemann, Hindemith and Suk; 8.45pm; Apr 12

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Symphoniker: with conductor Eliahu Inbal and the Wiener Singakademie perform Liszt's Psalm 13 and songs from Mahler's Des Knaben Wunderhorn; 7.30pm; Apr 13, 14
THEATRE
Schauspielhaus Tel: 43-1-3170616
● Du sollst mir enkel schenken: by Thomas Jonigk. Directed by Hans Gratzer. The cast includes Silvia Fenz, Jennifer Minetti, Eva Spreitzhofer and Sebastian Blomberg; 8pm; to Apr 20 (not Sun) (not Mon)

■ WASHINGTON

EXHIBITION
National Portrait Gallery
Tel: 1-202-357-1915
● 1846: Portrait of the Nation: In celebration of the 150th anniversary of the founding of the Smithsonian Institution, this exhibition describes the political, cultural and social character of America in 1846 by focusing on the leading figures of the time; from Apr 12 to Aug 18

■ ZURICH

DANCE
Opernhaus Zürich
Tel: 41-1-268 6666
● Das Zürcher Ballett: perform the choreographies White Streams by Ed Wubbe to music by Pärt, Pas de Deux by Mats Ek to music by Pärt, and Skating Rink by Jean Börlin to music by Honegger; 7.30pm; Apr 12

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Squawk Box

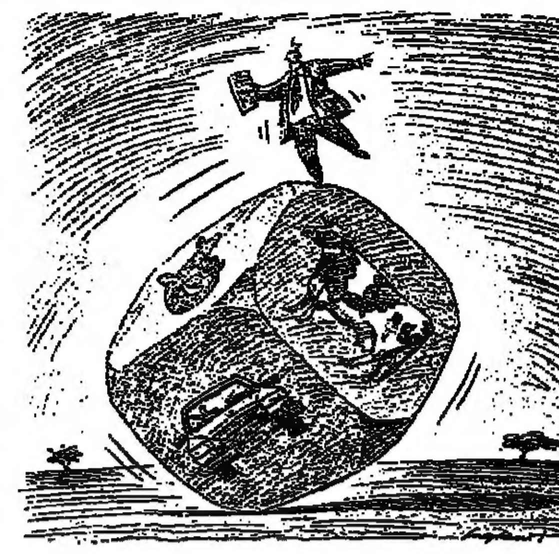
10.00
European Money Wheel

18.00
Financial Times Business Tonight

Samuel Brittan

Some ruminations on risk

Even well-educated people find it difficult to reason about matters of probability and fall back on what has been recently publicised or can be expressed in images



There is little I can usefully add to the millions of words already written about mad cows and the reactions to them of excitable human beings. The interesting aspect of this episode is the exaggerated reaction to very small risks – and indeed the inability or unwillingness of many so-called educated people to reason in terms of probabilities. Quick public judgments are often based not on any kind of risk assessment, but on what psychologists call the "availability error" – that is, whatever first comes to mind. This in turn is determined by what has been recently publicised, sounds dramatic and can be expressed in images rather than abstractions.

Many readers will remember the film *Jaws*, about a man-eating shark. The screening of the film caused a sharp drop in the number of swimmers off the coast of California, where a shark can occasionally be found. Yet the risk of swimmers being snapped up by a shark is very much less than the risk of their being killed in a road accident while on the way to the coast.

The psychologist Stuart Sutherland, in a paperback entitled *Irrationality*, analyses the fears, wishful thinking and prejudices which so often divert people from logical thought.

Most of the book takes for granted the conventional methods of reasoning used by the more numerate of social scientists. However, I became a little more suspicious when he waxed enthusiastic about techniques such as "cost benefit analysis" and "multiple regression analysis". Those who follow economic matters constantly come across references to these techniques and should be aware how often they have been misleading. Multiple regression analysis, for example, has underpinned most of the short-term economic forecasts behind so many recent policy errors.

At this point I thought it only fair to give a hearing to a heretic, John Adams, a reader in geography at University College, London. He is well acquainted with modern methods of risk assessment, but is convinced they often lead us astray. His point is that specialist consultants often do not know the risks themselves and hide this from the public or even themselves.

He has been involved in fierce controversies about safety belts in cars, which serve to illustrate the point. Most of the original arguments in favour of compulsory seatbelts were based on a fall in car accidents in Australia after they were introduced there. So far so good. Indeed Adams rebukes the anti-safety belts lobby for at first relying too much on libertarian arguments against "criminalising self risk".

His main point, however, is that the conventional argument for prohibition ignores the human factor. If drivers know they are protected by safety belts they will be just that little bit more careless. So the saving of lives in accidents will be offset by the greater number of accidents which occur. This is known as the "risk compensation hypothesis": it is like taking fewer precautions to avoid an infectious disease because one has been inoculated.

It is an open question whether the resulting increase in careless driving more than offsets the benefits of safety belts. Such arguments are rarely conclusively settled. It is enough to say that the advocates of compulsion are now a little more cautious in the claims they make. But you have to be numerate in the conventional sense to see the force of Adams' arguments. For he does not need to say that once safety belt laws are enforced people drive around like maniacs. An increase in carelessness so small that most drivers would not be aware of it could be sufficient to more than wipe out the savings in lives from seat-belts.

One common intellectual ploy to defuse arguments on probability is to make a distinction between risk and uncertainty. Risks are calculable and can be insured against – for instance, the chance of a normal single dice throwing a six is one in six. Uncertainty occurs when you do not even know what the risks are – as would be the case if one had no idea what was on the faces of the dice. All or none might be sixes, making it impossible to estimate the likelihood of any particular outcome.

This distinction has never quite convinced me since there are few situations where you can not obtain some vague idea of magnitudes. Suppose that you are considering investing in an oil pipeline in a former Soviet republic. It might be blown up or a new regime might confiscate it; but a little study of history suggests that the chances of this happening are well above zero, but much less than 100 per cent. So already there are some limits.

On the other hand, there can be some doubt about even a conventional risk calculation. The odds against being killed in a road accident on the way to a Californian beach are themselves subject to a considerable margin of error, however specifically you try to pose the problem in terms of distance travelled, weather conditions and so on. It seems to me that there is a spectrum between pure risk – for example, when we are dealing with properly made dice – and utter uncertainty, when we have no idea what is going to happen.

But I would like to move to a rather different example where the odds are said to be poorly understood. That is the addiction of millions to the UK National Lottery. The critics assert that the punters do not realise how heavily the odds are stacked against winning enormous prizes. But this need not be the case. Whether one wishes to pay for a tiny chance of a huge fortune is a matter of personal taste.

There may be a *tendency* for poorer and less educated people to be more inclined to have a flutter on the lottery. But one should look at the opportunities open to people: a successful bet against high odds may be the only possibility available for many to jump to a higher living standard (unlike professional and business people who have other opportunities for advancement in their own careers).

The more sophisticated objection to the lottery is that it is not a fair game. In other words, the takings are not all distributed in prize money, even allowing for administrative costs and the operator's profit. A hefty slice goes to good causes approved by the government.

For this reason it would be illogical to invest in the lottery if such huge prizes were available in alternative forms of betting that returned more of the stake to the punter. But they are not. By selectively legalising its own giant betting shop, the state has got there first. If full liberalisation of betting had been implemented, then either the present prizes would not be available, or one private corporation would have established a monopoly position and taken advantage of the economies of scale obtainable in high-stake betting.

Finally, a confession. I have been avoiding beef – not obsessively but where I have had a clear choice, as in restaurants. I can rationalise my action even if the odds against infection are as high as I would guess them to be. The main reason is that although I like roast beef or a steak occasionally, it is almost no sacrifice to eat poultry, game, fish or even pasta instead. It is not like ice-cream or patisserie, the absence of which would make me feel really deprived. Why suffer from even extremely remote neurotic anxieties when the cost of assuaging them is so small?

Having given a warning that the assessment of risk is often itself controversial and that it is much more difficult to apply impersonal logical principles to uncertainty, I believe it is still better to be numerate than innumerate.

Further reading: Innumeracy *by the American mathematician J. A. Paulos (Penguin £6.99). Look also at the sequels,* A Mathematician reads the Newspaper, *and* Beyond Numeracy *(Penguin). The books demonstrate you do not have to be adept at long computations to follow mathematical ideas. I wish somebody would do the same for econometrics.* Irrationality *by Stuart Sutherland (Penguin) and* Risk *by John Adams (UCL) have been discussed.* The Theory of Choice, *by S. H. Heap and others (Blackwell) is a lively introduction to the controversies in the area*

Personal View · Chris Patten

Nothing mysterious about Asia's success

Free trade gave the region its big break. Now it must match the west's freedom and flexibility

The writer Matthew Arnold once declared that "miracles do not happen". That is exactly how I feel about economic miracles. Of course, what has happened in parts of south and east Asia in the past 40 years is astonishing. Of course, what is happening economically in China is impressive. But we should not dismiss all of this as miraculous.

If there ever was an economic miracle, it happened in England in about 1780 when an agricultural and industrial revolution defined the beginning of the modern era. Because Britain had no one to learn from, it took almost 60 years to double per capita output. From then on, the pace of economic change accelerated. It took the US 50 years after 1840 to double its per capita output. It took Japan 33 years after 1880. It took Indonesia 17 years after 1965. It took South Korea 11 years after 1970. And China managed it in just 10 years after 1978.

What has happened in Asia during the past 40 years is not at all inexplicable; it has happened before, and we understand the processes at work. It is not some inscrutable eastern mystery; it repeats western experiences which had nothing to do with Confucianism. *Above all, it is not a threat to* the mature economies of Europe and north America; it has expanded our economic horizons and our business opportunities.

Inevitably, I see Asia through the prism of Hong Kong, which is almost certainly the world's freest economy. Hong Kong's and Asia's economic success has three *principal components: no* miracles – just ambition, economic liberty and free trade.

By ambition, I mean the sheer will to succeed, which is so characteristic of the people of Hong Kong and of most of its neighbours. No one in Asia sniggers behind their hand at those who succeed or at the very notion of progress.

For these ambitions to be realised, Asian governments had to grant their citizens economic liberty. At the end of the Pacific war, Hong Kong and its neighbours were in a poor state. But in Japan, South Korea, Taiwan, Hong Kong, Thailand, Indonesia, Malaysia and Singapore, governments gave their people the economic liberty they needed. This is an experience which has more recently been repeated in China and Vietnam.

But it was free trade which gave Asia its big break. The new economic era worked because the US economy took off after the war and pulled the rest of the free-market world with it. Access to western markets made possible the export-led growth of the east and south-east Asian economies.

What of the future? I am not so sure, but I do know that we should dispense with such glib notions as the 21st century being Asia's century in some exclusive or overwhelming way. Let me offer a few thoughts, not entirely my own, about the challenges facing Asia in the next century.

The first wave of successful Asian economies are now approaching maturity. Hong Kong, Japan and Singapore must now face the challenge not simply of catching up with the mature, technology- and information-based economies of the west, but the equally *arduous challenge of keeping* pace with them. They must match the other advanced economies in what one Asian economist has called "quality-driven" growth rather than the "quantity-driven" growth that has so far characterised Asian economic development outside Japan.

Quality-driven growth puts a premium on inventiveness, creativity and technological flexibility. The communities which will be best equipped to compete on these terms will be those that can provide social and political liberty in addition to economic liberty, those that can handle social and political pluralism. You will not compete successfully for quality-driven growth if you attempt to restrict the flow of financial and other information, if you lock up your scientists because their independence of mind leads them to inconvenient political conclusions, or if economic efficiency is distorted by cronyism and corruption. Toleration of dissent, the rule of law and a free press are real comparative advantages in the age of quality growth.

The second and third waves of Asian development have yet to peak, and they face another challenge. As they grow, China, India and Indonesia will have to find ways to deal with the immense pressures of population growth. Within 20 years, there will be seven Asian cities with populations in excess of 20m. Will these countries be able to make the infrastructure investments necessary to deal with the pollution, the traffic congestion and the massive pressures for housing and employment, which seem to be inevitable?

One writer has argued recently that the challenge for Asian communities, once their economies have ridden the first wave of development, will be to overcome what he has called the continent's institutional weakness. He sees this in terms of opacity in corporate governance, a lack of political accountability, and inadequate physical and social infrastructures. There are also growing doubts about whether *Asian nations can develop the* necessary security structures to enable them to maintain their own balance of power.

The jury is still out on all of this, but the rest of us should be hoping and praying that Asia does get it right. Because we all have a very big stake in Asia's stability and its success.

The author is governor of Hong Kong. This article is extracted from last night's 1996 Roy Bridge memorial lecture at the Bank of England.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

German pensions create brake on employment

From Mr Konrad Tomica.

Sir, Your article on Germany's pensions ("The storm on the horizon", April 9), and the inset, "A boost for capital markets", should have gone further. The German company pension system is not only "a significant structural hindrance to the development of German financial markets" but also an obstacle to labour mobility and, thus, a brake on employment.

To be able to transfer their company pension entitlements most workers with standard employment contracts must, under German law, have completed at least 10 years with an employer and be over 35 years of age. (Rare exceptions are, for example, where someone in a senior position can contractually secure a better deal or where an employer is prepared to give a prospective employee – who by moving would forfeit say six pension years – a similar number of years' "pension credit".)

Even if one is fortunate enough to be able to "keep" his or her pension entitlement, there is still a loss resulting from the break in continuity. What usually happens is that, when someone leaves a company, the pension entitlement will be actuarially determined and frozen, often in a type of life insurance. For example, if, after 15 years' service with XYZ GmbH, 45-year-old Herr Schmidt is eligible for a pension of DM2,000 per month when he leaves his company, this entitlement will be frozen at this amount until he reaches the normal retirement age of 65. Only then will he receive annual increases. At his next employer he will have to start all over again.

This means those who willingly or unwillingly change jobs will often end up with only a minimum state pension, as mentioned in your article.

The British or American method of employers and/or employees continuously paying into an institutional pension fund is virtually unknown in Germany. This is one reason that tends to make German workers reluctant to move and often to make the best of a bad job. It is virtually impossible to fire German workers at the best of times; so it is not uncommon to see discontented workers just sitting out the last two or three years that they need to complete their pension decade – thus blocking the way for other workers who might otherwise be hired.

It is ironic that, in a country which claims that its over-restrictive labour laws and trade union agreements are to protect the interests of the individual, one finds such a glaring anomaly.

Konrad Tomica,
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Germany

Legal haze

From Mr Andrew Dixon.

Sir, Mr Shizuo Ito believes "even a child knows that smoking is bad for the body" ("Smoke haze over Japan sell-off", April 6/7). If so, why is he representing four smokers who are blaming Japan Tobacco for not warning the consumers of the health hazards of smoking?

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Employee allowance aid to job creation

From Mr Jan-Peter Olters.

Sir, With wage competition being deemed politically undesirable and social clauses highly controversial, the solution to the wish – as expressed during the recent Group of Seven job summit in Lille – to design a "third" (distinctly non-American) way of creating new, secure, high-income, and full-benefit jobs might lie in some form of an "employee allowance".

Analogous to family-supporting child allowances, it reduces a company's direct tax burden proportional to its domestically employed full-time labour force.

Beyond creating significant recruitment incentives for the private sector, such a tax scheme would allow governments to prevent the erosion of social standards and outward investment towards low-wage countries.

It would permit them to reduce the tax burden only for companies that act in a "socially conscious" fashion – that is, it would benefit companies which hire and penalise those which fire.

Moreover, with a resulting decreased pressure on the public purse, an employment allowance-type job creation programme is, potentially, neutral in its fiscal implications, while being economically beneficial to companies, employees and the still unemployed.

Jan-Peter Olters
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Canada

International financial support a key to ensuring Angola peace

From Dame Margaret Anstee.

Sir, I was glad to see Angola's plight highlighted in Michela Wrong's report "After the war, the hell drags on" (April 2). It is certainly high time that the Angolan government adopted more stringent economic policies, but the issues are complex and closely linked with the peace process.

Angola finds itself in a cleft stick. Without economic revival and genuine prospects of a decent livelihood for the thousands of soldiers who have to be absorbed into civilian life, the peace agreement signed in Lusaka in November 1994 will remain fragile. And without some acceleration of the painfully slow progress in implementing that agreement, public confidence that the war is really over will remain low, and the climate unfavourable to reconstruction, investment and development.

A key element is the rapid cantonment, disarming and demobilisation of Unita's troops and the formation of the new, joint armed forces, drawn from both sides of the conflict. The speedy constitution of a government of national reconciliation in which Unita will also participate is equally essential.

Some of these measures have financial implications and it is important that the policies stipulated by the international financial institutions, especially the International Monetary Fund, should not imperil that peace process. Demobilisation is likely to take so long that it is proposed initially to absorb a much higher number of Unita troops than originally intended into the new armed forces and demobilise them from there. This will entail a higher budgetary cost than anticipated but one vital to peace and political stability.

Similarly, the international community can help by linking provision of aid for reconstruction and development to tangible progress by both sides in implementing the measures agreed in Lusaka.

As we are seeing in Bosnia, the road to post-conflict reconstruction and development is extremely rocky and uncertain. In the case of Angola, there are, at last, some encouraging signs that a lasting settlement may now be possible. They must not be jeopardised.

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The ins, the outs and Emu

The purpose of economic and monetary union is to strengthen the economic and political integration of Europe. Unfortunately, in the debate about the prospective relationship between Emu's "ins", "pre-ins" and "outs", the single market and even European co-operation are in some danger of being sacrificed to Emu. The informal meeting of the EU's finance ministers and central bankers in Verona next weekend must prevent this from happening.

The reason for the difficulty is clear: if the convergence criteria in the Maastricht treaty were applied strictly, the first wave of entrants into Emu, in 1999, would consist only of currencies that already have a history of stability against one another – the D-mark, the Dutch guilder, the French franc, the Austrian schilling and maybe the Belgian franc. Emu would then fail to do much, if anything, to reduce exchange-rate instability.

For those who regard such instability as anathema, this failure would rob Emu of most of its purpose. Their suggested answer is a new and tougher exchange rate mechanism, with fiercer enforcement mechanisms, perhaps including restrictions on budgetary transfers to the bad boys or even barriers to free internal trade.

Such ideas are illegal, unnecessary, counterproductive and unworkable.

The ideas are illegal, because the single market is an acquired right of all EU members. Access to it is not a privilege dependent on willingness or ability to join Emu. To suggest that it could become so amounts to a questioning of the entire legal basis of the EU.

Devaluation myth

The ideas are unnecessary, because competitive devaluation is a myth. Member states have devalued in recent years either because they made a mess of their own affairs or because they found the monetary policies pursued by the Bundesbank far too restrictive to be acceptable. In the former case devaluations were inescapable; in the latter they were appropriate. Moreover, currency movements do not make free internal trade impossible or undesirable.

Indeed, one of the conclusions of recent studies is how modest is the impact on trade of even quite large short-term price movements.

The ideas are counterproductive because the costs of fragmenting the single market would outweigh benefits of currency stability and the political costs of punishing outsiders would exceed the advantages of making them toe the currency line. It is difficult to imagine anything more threatening to EU harmony than to punish countries twice for their failure to make the Emu grade.

Reciprocal commitment

Finally, the ideas are unworkable, because a tight ERM cannot function without strong reciprocal commitment by the European Central Bank. But the Germans are determined that any new ERM would rule this out even more than does the present one. In his FT interview today, for example, Mr Hans Tietmeyer, president of the Bundesbank, makes clear his determination to avoid large-scale intervention by the European Central Bank in defence of an inappropriate exchange rate.

Exchange-rate stability would then depend on the credibility of the unilateral commitment by a member state that had either failed the convergence criteria or had chosen to stay out of a single currency. Only a wide band arrangement, such as the present ERM, could be envisaged, not because it would work when challenged, but because it would not be challenged that often. Even so, when a currency did reach the limit of its bands, changes in monetary policy would succeed in defending the exchange rate only if they seemed consistent with domestic economic objectives. This being so, domestic stability must be the main aim.

The relationship between the ins and outs is potentially very dangerous. But the danger is not that the outs will steal a march on the ins by competitive devaluations. It is rather that the ins may be willing to sacrifice the single market and even the workability of the EU to secure control over the exchange rates of the outs. This is the danger to be avoided by the ladies and gentlemen meeting this weekend in Verona.

Securing Japan's defence

Most Asian leaders still do not like to admit it too publicly, but recent events in the Taiwan Strait and tension on the Korean peninsula have been a salutary reminder of the need for a continuing US security presence in the region. At next week's summit, president Bill Clinton and prime minister Ryutaro Hashimoto thus have an extra incentive for reaffirming their commitment to the Japan-US security arrangements on which that presence depends.

The task will not be easy. Trade issues are finally moving away from centre stage in the US/Japan relationship, but the security leg has shown signs of wobbling now the cold war is over. Opposition to US bases on Okinawa was exacerbated by last autumn's rape of a schoolgirl by US soldiers. The public in both countries is too little aware of the importance of the alliance. The US worries that Japan is unwilling to pull its weight in security matters.

There are some encouraging signs. Japan has agreed to supply the US military with spare parts and a larger range of services. But this symbolic move, expected to be enshrined in a fresh defence agreement announced during Mr Clinton's visit, does not remove the need for a broader review of roles in the region.

Japan must again rethink the constitutional constraints on its self-defence forces. But both sides must proceed with care as well as determination. Having promoted Japanese pacificism after the second world war, the US cannot now complain too loudly about its lack of belligerence.

Calming factor

The US desire for Japan to play a more active security role must also be offset by the reluctance of Asian countries to see Japanese forces freely deployed in the region. If North Korea were to invade, South Korea would rely on US support. Given memories of occupation, it is difficult to see Seoul welcoming Japanese troops on to its territory. There is also danger in encouraging extreme elements in Japan which remain committed to nationalism and less so to pacifism. A continuing US presence is a calming factor, as it eases some of the internal pressures for Japan to re-arm.

The first part of any reassessment of the security ties must involve US recognition that there are limits on what Japan can do. The second part is for Japan to accept that those limits lie somewhere beyond its present contribution. To a sceptical US public the relationship will always seem lopsided if Japan continues to hide behind constitutional constraints in offering only lightly armed and grudging support for UN peacekeeping exercises.

A good deal

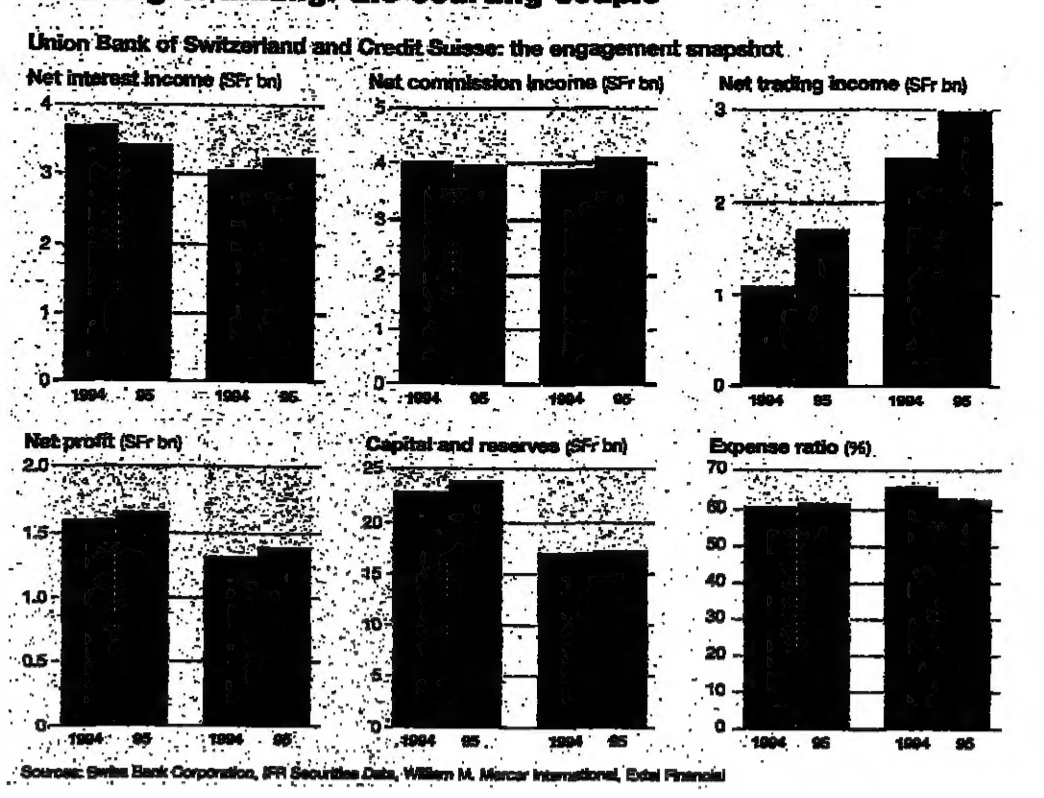
This requires a more open debate on defence policy than Japan has yet undertaken. Last November's review which promised a cut of 20 per cent to 145,000 in defence personnel commanded a consensus that for the first time involved the Socialist party. But there is a need to go further. The Japanese government must convince its own people that the deal whereby the US provides security in return for bases is a good one. That will reinforce its argument that, despite local opposition, US forces should remain in Okinawa – a vital staging post if they are to play a wider regional role.

More important, Japan must revisit the interpretation of the constitution which says that its self-defence forces may respond only to a direct attack on Japan itself. If Japan is to be a more equal partner for the US, it must be prepared to embrace the concept of collective defence and show greater willingness to play some part in common actions such as the Gulf war.

The trouble is that debate on this issue remains difficult. There are fears that it might split the governing coalition or the Liberal Democratic party itself. But in avoiding the debate, Japan's ruling elite risks international embarrassment and internal agonising the next time a crisis strikes. Japan's political leaders should seize the initiative, launch the debate now and steer it towards the appropriate conclusion. The Japan-US alliance – and with it the security of the whole Asian region – would end up stronger as a result.

Thinking of linking: the courting couple

Union Bank of Switzerland and Credit Suisse: the engagement snapshot



Sources: Swiss Bank Corporation, IFR Securities Data, William M. Mercer International, Extel Financial

After the event: where the merged bank would stand

Syndicated credits Top arrangers 1995	$bn
Chase Manhattan*	272
J.P. Morgan	129
Citicorp	117
UBS and CS	77
Credit Suisse/CSFB	46
BankAmerica	42

*Chase and Chemical combined

International bond issues Top bookrunners 1995	$bn
UBS and CS	45
Merrill Lynch	34
Nomura	29
CSFB	29
SBC Warburg	28
Daiwa	24

The top 10 banks by market capitalisation	$bn
Bank of Tokyo-Mitsubishi	104
Industrial Bank of Japan	64
Sumitomo Bank	63
Fuji Bank	61
Dai Ichi Kangyo Bank	60
Sanwa Bank	57
UBS and CS	41
Citicorp	38
Sakura Bank	38
Chase Manhattan*	31

*Chase and Chemical combined

Investment managers funds under management	$bn
Fidelity	288
BZW*	233
UBS and CS	175
Capital International	154
State Street Global	139
Zurich Investment**	132

* BZW and Wells Fargo Nikko combined
** Zurich and Kemper combined

Union Bank of Switzerland — Credit Suisse Holding (CSH group)

Steep mountain to climb

A plan to merge two Swiss banks to establish one of the world's most powerful financial institutions faces serious obstacles, says Ian Rodger

The revelation this week that Switzerland's two largest banks are discussing a merger that would create one of the biggest global financial institutions has startled bankers across the world.

A Zurich newspaper revealed on Tuesday that CS Holding, the group built around the Credit Suisse bank, had proposed to the Union Bank of Switzerland that the two explore the possibility of a merger.

Few Swiss analysts take the proposal at face value, even though in Switzerland, as elsewhere, big banks are facing an urgent need to cut costs in the face of intensifying competition. They see too many legal and practical obstacles for two banks that play such important roles in a small country like Switzerland.

"In theory, it looks great, but the mix would not be a triple-A bank any more." Mr Hans Kaufmann, banking analyst at Bank Julius Baer in Zurich, says.

The merger would certainly result in some impressive statistics. The merged bank would be the second largest in the world in terms of assets, behind the recently merged Bank of Tokyo-Mitsubishi Bank. It would be one of the world's largest fund managers, with over $500bn under management. And it would have significant market shares in most investment banking businesses in Europe and the US.

At first glance, the benefits would appear to be considerable, especially in their international businesses. UBS is a strong player in equities while Credit Suisse subsidiaries, First Boston and CS First Boston, are leading bond market players. UBS is weakest in the US where CS First Boston is strong.

In Switzerland, however, where a wave of protest against the idea of a merger broke out yesterday, the combination would cause considerable misery. Both banks have overlapping retail networks, and analysts suspect nearly half of their combined 750 branches would have to close, with substantial redundancies among the 16,000 employees.

"It is politically not possible," another Zurich banking analyst said yesterday.

The new bank would expect to lose business in Switzerland to other local banks as business customers spread their custom.

Legally, a merger would face daunting hurdles: under UBS statutes, it would have to win votes representing two-thirds of the total equity capital. And the Swiss cartel commission would be expected to look critically at a merger that would result in a single bank having dominant shares in many retail activities.

One analyst said one of the banks would probably be forced to try and sell its retail network, but he anticipated few bidders for a presence in Switzerland's heavily overbanked domestic market.

Shares of both groups, which had jumped on the news on Tuesday, fell back yesterday while those of Swiss Bank Corporation, the other big Swiss bank, rose. Swiss banking analysts are now becoming increasingly sceptical about the proposal.

They see it as yet another strange twist in the epic governance battle between the UBS board and its largest shareholder, the maverick Zurich broker, Mr Martin Ebner.

It is no coincidence, they suggest, that it has come out only a few days before what is expected to be a tense UBS annual shareholders' meeting.

Mr Ebner, whose BK Vision investment fund has roughly a 5 per cent stake in UBS, has tied the bank up in the courts for nearly two years challenging its plan to create a single class of shares. He objected to the conversion because UBS offered no compensation to holders of registered shares for the extra voting power they enjoyed.

The plan was approved by a slim margin at a shareholders' meeting in November 1994. But Mr Ebner won an injunction blocking implementation and charged UBS with improperly buying large blocks of its shares to influence the vote.

This time, Mr Ebner is calling on fellow UBS shareholders to reject the nomination of Mr Robert Studer, the bank's former chief executive, as chairman. He argues that Mr Studer failed to rise to the challenges facing the bank in his seven-year term as chief executive.

The merger proposal, with its threat of redundancies in Switzerland, comes at a convenient time for UBS. The UBS board would probably win the allegiance of many Swiss investors, including that of employees, if the promised statement after its board meeting today rejected the merger. Many observers suspect UBS leaked news of the merger talks.

For its part, Credit Suisse may have sensed an opportunity to improve its own prospects through a merger. Its profits have been lacklustre in the past two years as a result of a costly 1992 acquisition of Swiss Volksbank, and troubles at its CS First Boston investment banking subsidiary.

And even if Credit Suisse is rebuffed, the public disclosure that it initiated a discussion might encourage other potential partners.

"Credit Suisse can hardly shout, 'Help! Help', but the effect is basically the same," a Geneva banking analyst said yesterday. Analysts agree Credit Suisse would stand to gain most from such a merger, a view reflected in the much greater rise of its shares yesterday after the announcement.

Whatever happens to the merger idea, both banks must carry out substantial restructuring in the next few years to reduce their costs. The ratio of operating costs to revenues of both is significantly higher than that of the best US banks.

"UBS is strong enough to carry out the restructuring that will be needed on its own," Mr Kaufmann said. "But Credit Suisse's flexibility is very restricted by its small equity base."

Rivals not quaking with fear yet

How many banks can hope to survive to the end of the century with their ambitions to be global financial powerhouses intact? If a merger were to take place between Union Bank of Switzerland and CS Holding, the two largest Swiss banks, it would certainly create a financial giant with a claim to be one of the contenders.

But rival investment and commercial banks were yesterday far from overawed by the prospect of a UBS-CS combination.

A merger of the two banks would have the scale many bankers think will be necessary to compete. Its market capitalisation of more than $40bn would rank second only to Citicorp among non-Japanese banks – ahead of Chase Manhattan, which since its merger with Chemical Bank has been telling investors how important size will be in global financial markets.

CS's control of CS First Boston, the Wall Street investment bank, also provides the bridgehead into the US wholesale banking market that other European banks have found so difficult to establish. "Unless you can be coherent about the US, you aren't going to be credible as an investment banker," says one US investment banker.

In fund management, a merger would create a huge business – possibly the largest fund manager in the world. Statistics compiled by William M. Mercer, the pensions adviser, suggest that the combination would rank third in the world, with $175bn under management, behind Fidelity and BZW.

But neither Swiss bank publishes figures, and Mercer's estimate almost certainly understates their private trust funds managed in Switzerland. Some Zurich bankers calculate that UBS alone has between $400bn and $650bn under management.

UBS-CS would also be a formidable presence in bulk businesses, such as custody of securities and transmission of payments, where size can reduce processing costs.

These are the kinds of attributes that a European bank is going to need if it is to break into the "global bulge bracket", the elite international banks who dominate global primary and secondary markets, and command the lion's share of corporate customers' fees.

"The financial rewards are reserved for the first-line players, and the risks are the same for everyone," says Mr Martin Owen, chief executive of NatWest Markets, the investment banking arm of the UK's National Westminster Bank. But in the mathematics of investment banking, it is not clear that one plus one will necessarily add up to two.

Mr Georges Blum, chief executive of rival Swiss Bank Corporation, warned as much last month, when market rumours suggested his own group might merge with UBS. He said bank mergers did not offer the same benefits as the alliance between Ciba and Sandoz in the pharmaceuticals industry: "We have the same goals, the same strategies, the same customers".

Competing banks warn that the cultural differences between UBS and CS would be particularly hard to overcome.

UBS, which unlike its Swiss competitors has retained an AAA credit rating – the highest possible – has always operated under much tighter rules for credit and risk control. That might sit ill with the free-wheeling derivatives traders of Credit Suisse Financial Products.

UBS has also insisted on completely integrating its investment banking operations within the group, avoiding the creation of a bank within the bank. CS, on the other hand, only owns a 68 per cent stake in CS First Boston, though it controls all the voting stock.

Rival bankers appear unworried by the prospect of a merger. "Nobody is going to start quaking for at least a couple of years," said one London banker yesterday. "They would have to take their eye off the ball while they managed the merger, and would tend to stumble for a year or two."

George Graham

· OBSERVER ·

The cow is in the post

■ One place Britain's benighted cattle farmers can count on a bit of sympathy from is Spain.

For almost 30 years Spanish pig breeders went through the same kind of trauma with pigs as the UK is now going through with cows. Restrictions on exports of pork products from Spain – imposed in 1960 because of an outbreak of African swine fever, apparently harmless to humans but fatal to pigs – were finally lifted by European Union authorities only in November last year.

Now the regional government of Cantabria in northern Spain, one of the main livestock areas, is extending a helping hand to the UK in its mad-cow crisis. José Alvarez Garcedo, its agriculture chief, is proposing to help rebuild Britain's cattle stock.

He says Cantabria has the capacity to export between 25,000 and 30,000 head a year, and is inviting UK experts to inspect the sanitary conditions of its herds of Friesian dairy cows and other breeds. The twice-a-week Santander-to-Plymouth ferry service could be used to recolonise British farms, he suggests.

All this is not pure altruism, of course. The idea is that the UK market will boost prices for Cantabrian cattle, which are already exported to France and Belgium as well as other parts of Spain.

Perhaps the UK could reciprocate by offering the Spanish a postal service. Alvarez Garcedo says he wrote to the British embassy in Madrid setting out his proposal on March 28; the embassy said yesterday it still hadn't received it.

History makers

■ The late François Mitterrand's dream of creating an eponymous research foundation is to be realised. The François Mitterrand Institute will live at an apartment in the chic fifth *arrondissement* in Paris, and will begin life with funds of FFr4m, half from the ex-head of state's friends, and the rest generously provided by the French government.

The objectives of the foundation are "to contribute to the knowledge of contemporary French political and social history". It's already making a contribution to historical research – its list of 13 founder members includes Mazarine Pingeot, Mitterrand's daughter by a mistress, whose existence was only acknowledged in late 1994.

Surprise surprise

■ The proposal of a merger between CS Holding, the group built around the Credit Suisse bank, and Union Bank of Switzerland, has caught many a bank strategist on the hop. Even Josef Ackermann, chief executive of Credit Suisse, cannot claim to have been very far ahead of the game.

Speaking to a group of Swiss journalists at a pre-Christmas gathering, Ackermann was asked that old chestnut about whether there was still room for three large retail banks in the country – the other two being UBS and Swiss Bank Corporation.

Ackermann said he saw no possibility of a reduction in the troika. None of the three could afford unilaterally to withdraw, because of astronomical closure costs. The Swiss cartel office would certainly not allow a merger or takeover of one by any of the others, he contended. That left the possibility of a foreign bank buy – in which case there would still be three.

Perhaps CS Holding chairman Rainer Gut should have been at the meeting.

Rosty gets porridge

■ How the mighty are fallen. Dan Rostenkowski, the once powerful chairman of the US House ways and means committee, is about to start 17 months in prison and hand over $100,000 in fines.

Rostenkowski was charged with making thousands of dollars of payments to "ghost employees", and of diverting $724,000 in federal money and campaign funds for personal use.

Admirers of "Rosty" depict him as a victim of rule changes in the political system. He was a product of the Chicago Democratic machine, with its ward bosses and patronage.

Under this system, three decades ago, Rostenkowski expressed indignation when a judge ordered him to stop using party funds to pay his constituents' parking tickets – a practice he argued was "good politics".

"I am very proud of my 36 years in Congress," Rostenkowski said after being sentenced. "When I am released from incarceration, I intend to be actively involved in public life." Don't say you weren't warned.

The rat's off

■ Fed up with beef? How about rat? If Vietnamese meat-eaters are to be believed, rat can be a wholesome alternative. Rat is now going down a treat in two provinces northeast of Hanoi, in Hai Hung and Ha Bac, where the animals are cleaned and sliced before being laid out on large bamboo plates. Connoisseurs say boiled rat, served dipped in a seasoning of salt, pepper and spices such as red pepper or lemongrass, is good, but they prefer steamed rat, well stuffed with lemon and guava leaves. Enjoy.

Financial Times

100 years ago

Canada and the Empire

The Toronto Board of Trade yesterday evening unanimously adopted the following resolution:- "That the advantages to be obtained from a closer union between the various portions of the British Empire are so great as to justify an arrangement as nearly as possible of the nature of a Zollverein within the Empire consistent with local tariff requirements."

The rising in Rhodesia

Salisbury reinforcements, foot, mounted and waggons, left for Gwelo, being joined by 200 Native Contingent at Charter, also 200 Soudanese from Beira. Captain Macfarlane found rebels had made two further attacks on Mr. Gifford's position, but were repulsed with heavy losses. Casualties:- Lumsden and Hulbert, severely wounded; Trooper Herman, crushed by horse. Column returned Bulawayo. All wounded making progress. – Reuter.

50 years ago

Forged war bonds

The Stock Exchange and the banks have been warned of the existence of forged 3¼ per cent War Bonds. Detective Inspector P. Bugney of Scotland Yard, and a special branch officer who will act as interpreter, have gone to Paris in connection with these and bank note forgeries.

FINANCIAL TIMES
Thursday April 11 1996

China's $1.5bn Airbus deal boosts consortium

By David Buchan and Michael Skapinker in Paris

Mr Li Peng, the Chinese prime minister, yesterday signed orders to buy as much as $1.5bn in Airbus aircraft. This is the first big breakthrough for the European consortium in China's aviation market, which has been dominated by Boeing of the US.

The new order for the 30 A320 Airbus and the confirmation of a previous order for the three A340s will virtually double the European market share in China, which so far has only bought 35 Airbus aircraft.

Contracts were also finalised last night for a FFr250m ($49.2m) technology supply contract for Gaz de France in Shanghai and a FFr2.4bn credit agreement to finance the extension of Peugeot-Citroën's car plant in Wuhan. This plant, which makes Citroën ZX lower-medium range cars, is due to expand output fivefold to reach 150,000 vehicles a year by 2001.

The Airbus deal is a coup for the European consortium comprising Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain.

It follows a cooling of China's relations with the US, strained by disputes over trade issues, human rights, Taiwan and arms proliferation.

The Chinese orders for 30 short-haul A320 aircraft and for three larger A340 aircraft came as Mr Louis Gallois, chairman of Aérospatiale of France, urged Airbus to abandon its tradition of allocating work in accordance with the shareholdings of its partner companies.

In an interview with the Financial Times, he said that this proposal would allow Airbus to seek out low-cost suppliers.

The Airbus order is a blow to US aircraft companies, though it was foreshadowed by last month's postponement of a trip to the US by Ms Wu Yi, China's trade minister, who was to have visited Boeing and McDonnell Douglas. Boeing has been negotiating to sell China 10 777s, five 747-400s and 15 737s.

Airbus said last night that the new order might not end Boeing's pre-eminence in the Chinese market, but was a warning to the US that China is "now looking seriously at European alternatives" for new aircraft. "This is the kind of warning I like," Mr Gallois said.

Ten of the A320s will go to China Southern Airlines, one of the country's largest carriers which has not previously bought Airbus aircraft.

The other 20 have yet to be allocated to other Chinese carriers, but are understood to be firm orders.

The Chinese orders, signed last night in a ceremony between Mr Li and his French opposite number, Mr Alain Juppé, is also consolation to Airbus for losing to US competitors recent aircraft contracts placed by Singapore and Malaysia.

Aérospatiale chief backs Airbus reform, Page 4

Bundesbank outlines plans for EU currency stability

By Andrew Fisher and Peter Norman in Frankfurt

Plans to forestall political and currency turbulence between countries within European monetary union and other European Union countries were revealed yesterday by Mr Hans Tietmeyer, president of the Bundesbank.

The head of Germany's central bank said the proposals sought to make fluctuations between the euro – the proposed Emu single currency – and other EU currencies less tied to national prestige by giving the planned European central bank a role in exchange rate changes.

The plan will be discussed at tomorrow's informal meeting of EU finance ministers and central bank governors in Verona, Italy.

In an interview with the Financial Times, Mr Tietmeyer proposed that the president of the future European central bank would use "supranational authority" to oversee changes to rates, relative to the euro, of non-Emu members when their currencies come under pressure. The relationship between Emu's "ins and outs" will head the Verona agenda.

Mr Tietmeyer hoped ministers would react positively to the plans, broadly agreed by EU central banks but not previously aired in public.

They would considerably enhance the status of the European central bank president, who would consult closely, and in private, with non-Emu countries and "set the ball rolling" on talks about changes in their parities against the euro.

The proposals would avoid the placing of too heavy an obligation on the bank to intervene in currency markets after Emu's launch, due in 1999. But governments would have the final decision. "I don't want to depoliticise the system but to get the political prestige question out of the way."

Mr Tietmeyer held out the possibility of further cuts in German interest rates and expected the reversal of last year's sharp rise in the D-Mark against the dollar and other currencies to continue. The "exchange rate shock" had been largely corrected "and there are chances that it will correct itself still further".

The last cuts in the German discount and Lombard rates, which set the floor and ceiling for money markets, were in December when they were lowered by half a point to 3 and 5 per cent respectively. Mr Tietmeyer said the Bundesbank would "assess carefully" whether there was scope for a further reduction.

It would not lower rates solely to improve German export competitiveness by helping the D-Mark ease further. "We cannot pursue a policy that leads to a crisis of confidence in the D-Mark." A policy that risked internal stability to achieve greater competitiveness "would be a dangerous game, playing with fire", he said.

He said the Bundesbank's emphasis on stability should be carried into both Emu and its links with non-Emu currencies.

See Lex
Ins and outs, Page 2
Editorial Comment, Page 9

Mitsubishi faces sexual harassment suit

Continued from Page 1

of the harassment was blamed on assembly line workers and junior management, but 30 women who sued Mitsubishi in 1994 claimed that Japanese managers routinely said women did not belong in factories.

Sexual harassment lawsuits are rare in Japan, where suggestive photographs can still be found in offices, lewd jokes are common and job discrimination against women is routine. Industry analysts said it was too early to assess the impact on Mitsubishi Motors, but warned the case could damage the company's reputation in the US and possibly even lead to moves to boycott its vehicles.

"The outcome is difficult to determine but it is clearly a negative factor," said Mr Koji Endo, industry analyst at Lehman Brothers in Tokyo. The charges come at a difficult time for Mitsubishi Motors, which has not been profitable in the US, according to Mr Endo.

Mitsubishi's Illinois plant, which sells about half its vehicles and a large number of engines to Chrysler, risks losing its main customer by the end of the decade. Chrysler, which used to be Mitsubishi's partner in the Illinois joint venture, has indicated it will not extend its purchases after their contract expires in 1999.

New York in 'smart' move to cashless society

By Richard Waters in New York

New York's affluent upper West Side will get its first taste of the cashless society later this year with what is set to be the biggest experiment yet seen in the US with "smart" cards.

The city's two biggest banks, Chase Manhattan and Citicorp, and the two international payment organisations, Visa and MasterCard, have overcome their traditional rivalries to co-operate on the scheme, which was announced yesterday.

Bank automatic cash dispensers will be modified to "load" money on to a microchip embedded in the card, and small merchants such as newspaper vendors – many of whom do not accept credit or charge cards – will be given incentives to acquire the machines needed to read the cards.

The pilot is the latest in a string of programmes announced in recent months to bring the smart card to the US. Such cards have been taken up far earlier in a number of European countries and can be used for small-value purchases.

The New York pilot will involve the banks blanketing the 30-odd blocks of the city sandwiched between Central Park and the Hudson River with the technological infrastructure needed to support a cashless community.

The banks see this as fertile ground for testing a plastic card that they believe could one day largely replace cash.

The announcement of the New York pilot comes ahead of the first large-scale US experiment with smart cards, which will be launched during the Olympic Games this summer in Atlanta.

Many retail banks now see the smart card as a key weapon in their attempts to win back customers from non-bank finance and credit card companies.

Once embedded in a customer's standard bank card, microprocessors can perform many other functions, from supporting loyalty programmes to encourage frequent use, to providing secure access to the Internet, said Mr Ron Braco, senior vice-president in charge of electronic commerce at Chase Manhattan. "We recognise that it's in our interests to get a chip on to the card," he added.

New Yorkers, however, have proved resistant to the smart card before. An attempt over the past two years by the city's Metropolitan Transit Authority to ween subway and bus travellers off the metal tokens used to pay for rides has largely fizzled out.

Such resistance, though, will not prevent the spread of the smart card, predict its advocates. Mr Braco said: "While New Yorkers are resistant to technology, they're very keen on convenience."

THE LEX COLUMN

Sinking Suez

FT-SE Eurotrack 200: 1700.6 (+0.9)

Source: Datastream

Since Mr Gérard Mestrallet took control of Suez last year following a shareholders' revolt, some things have got better. He has shaken up Société Générale de Belgique, the Belgian industrial holding company in which Suez has a majority stake. And the pain of provisioning against property loan losses incurred by Banque Indosuez appears to have been taken, barring any further weakening of the French property market. This means that the management's promise yesterday of a return to profitability in 1996 looks reasonable.

Sadly, this has not been enough to prevent the share price from falling since Mr Mestrallet took over. He may be managing the existing group better, but the group still lacks strategic focus and the real solution to its problems is still to break it up.

At the very least, Mr Mestrallet should get on with selling off Banque Indosuez. Yet he maintains that it is an integral part of the group, on course for recovery as an "integrated international merchant bank, specialised in the Europe-Orient axis". This looks as unconvincing as it sounds. The bank's earnings have plummeted, and it is hard to believe that it can compete as a top-tier investment bank in either Europe or the Middle East or the Far East. There is, though, a logical fit with Crédit Agricole, which is believed to be interested in buying it – and is probably the only French bank that could afford to do so. In addition, it should be easy enough to sell Suez's specialised finance subsidiaries. But until there is evidence that more drastic action will be taken, the shares are likely to continue to underperform.

Olivetti

Investors in Olivetti have little for which to thank Mr Carlo De Benedetti, its chairman. Since the Italian computers to telecoms group completed its L2,257bn ($1.4bn) rights issue in January, the shares have fallen 36 per cent, as the group announced that losses had escalated during the rights issue period. Now that foreign investors own an estimated 70 per cent of the group, they have the opportunity to do something about it.

There is a lot at stake. If one applies the same valuation per population for the network area as recently-listed Orange, Olivetti's stake in mobile phone operator Omnitel is worth around L920 a share against Olivetti's current L831.5 share price. Since Italy has only two operators and a comparatively undeveloped market, such a valuation does not look flattering. Moreover, there remains significant value in the group's office equipment subsidiary, Lexikon, and the systems and services divisions. Assets will have to be sold to fund telecoms investment but the current break-up value, excluding personal computers, is close to L1,400 a share.

Mr De Benedetti tried to build Olivetti into a significant force in European computers, and he is now desperately downsizing it to create a saleable asset. Next week, a trading statement will show whether his strategy is working. If he is winning, the shares will look very cheap. If he is losing, outside shareholders should make the most of Mr De Benedetti's diluted shareholding by appointing a chairman who will take more drastic measures to realise the substantial value hidden within the business.

Emu

Mr Hans Tietmeyer's reservations about how far non-Emu currencies could be inflexibly tied to the euro through a re-heated exchange rate mechanism are a breath of fresh air. What he does not spell out is that the whole idea is flawed: if a country cannot join Emu because its economy is not robust enough, any attempt to link its currency to the euro is bound to fail.

Different logic applies to Britain, since it probably could join Emu but may choose not to. But suggestions that it might be forced or pushed back into the ERM, without genuine commitment from the government, look just as nonsensical. The lesson of the ERM is that keeping a currency within artificial bounds takes enormous political willpower – and even that is no guarantee of success.

Much more likely is a compromise – concentrating on economies rather than currencies converging. In theory at least, if "in" and "out" economies are subject to similar disciplines, their currencies should not diverge much.

Of course, ERM enthusiasts are unlikely to be overimpressed by this argument: EU convergence criteria may not be strictly observed; and even if they were, currencies are often reluctant to behave quite as economic theory thinks they should. So in practice, such targets would not save currencies from devaluation. But such an approach would still have two great advantages over a reconstituted ERM. For a start, it is not obviously unworkable. And just as important, it is much more likely to serve, rather than threaten, the interests of the economies concerned.

Jefferson Smurfit

After a year of admirable restraint, the world's paper companies are back to their bad old habits. American manufacturers have been increasing capacity at twice the rate of economic growth and are flooding Europe with cheap imports. Subdued demand and a 50 per cent drop in the pulp price – which has dragged down prices for most paper grades in its wake – have turned a period of temporary destocking into something more serious: Jefferson Smurfit estimates that to clear excess stocks out of the system almost all the world's paper mills would need to shut for a month. That is clearly not going to happen, so investors have little choice but to brace themselves for two tough years. International Paper, the world number one, has just reported a 50 per cent decline in first-quarter profits and analysts estimate that earnings at Smurfit, which more than tripled during 1995, will fall by 40 per cent this year and be flat at best in 1997.

Longer term, Smurfit looks better placed than most, due to its global spread and highly integrated operations which make it less vulnerable to the gyrations of the pulp price. The group also has a good record on acquisitions, proving that in many instances it is cheaper to buy capacity than to build it. However, the speed of this latest downturn has caught even Smurfit off-guard. With nearly £600m of borrowings left over from its last takeover spree, the group's ability to buy weaker rivals at the bottom of this cycle is limited. This could delay much-needed consolidation in the industry.

Additional Lex comment on Granada, Page 15

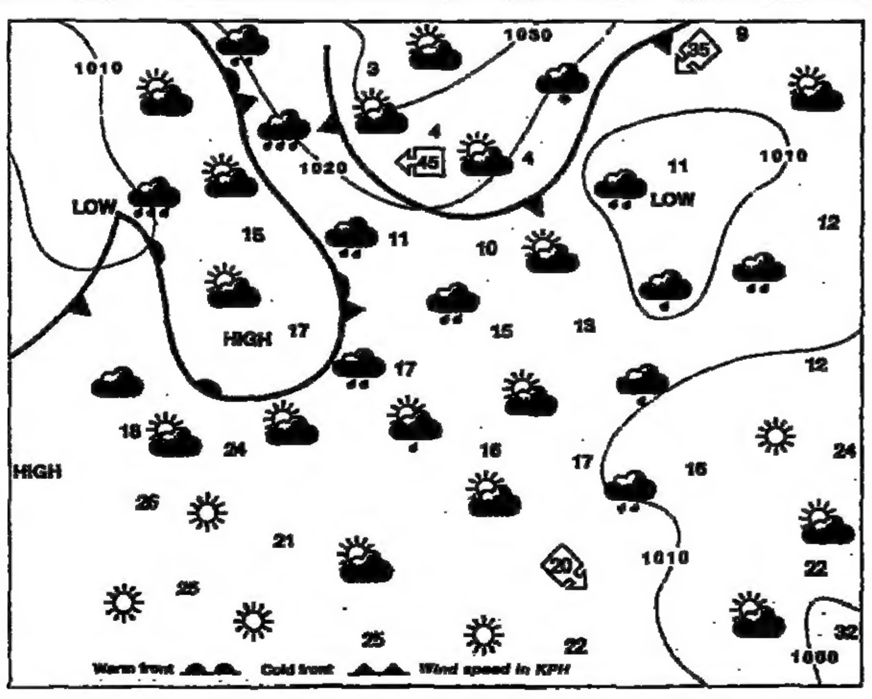
FT WEATHER GUIDE

Europe today

A disturbance will approach the British Isles from the west accompanied by overcast conditions and a lot of rain. Ahead of this system, it will be dry with sunny periods. Eastern Scotland, the Benelux and north-eastern France will be overcast with occasional rain or drizzle. Most of Scandinavia and southern and eastern Spain will be sunny. Italy will also have sun but scattered showers will develop. South-eastern Europe and western and northern coastal regions of the Black Sea will continue cloudy with showers. Turkey will remain predominantly dry and rather sunny. Afternoon temperatures in south-eastern Europe will be higher than recently but still below normal.

Five-day forecast

The north-west of the continent will remain overcast and rainy until the weekend. The UK will continue unsettled. Early next week the Benelux and France will be sunny as drier conditions arrive. Spain will continue calm and partly sunny. Various low pressure areas will cross France towards Italy and south-eastern Europe resulting in alternating overcast and rainy periods.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	34
Accra	thund	34
Algiers	sun	21
Amsterdam	rain	12
Athens	shower	17
Atlanta	sun	26
B. Aires	fair	22
B.ham	fair	14
Bangkok	sun	38
Barcelona	fair	19
Beijing	sun	17
Belfast	cloudy	11
Belgrade	fair	17
Berlin	cloudy	10
Bermuda	rain	19
Bogota	shower	19
Bombay	sun	35
Brussels	rain	14
Budapest	cloudy	15
C.hagen	fair	6
Cairo	fair	26
Cape Town	sun	25
Caracas	sun	31
Cardiff	cloudy	14
Casablanca	sun	21
Chicago	shower	24
Cologne	rain	14
Dakar	sun	25
Dallas	sun	30
Delhi	sun	35
Dubai	sun	34
Dublin	cloudy	11
Dubrovnik	fair	16
Edinburgh	drzzl	13
Faro	fair	21
Frankfurt	rain	13
Geneva	rain	17
Gibraltar	fair	20
Glasgow	fair	12
Hamburg	cloudy	11
Helsinki	fair	0
Hong Kong	cloudy	18
Honolulu	sun	32
Istanbul	fair	14
Jakarta	fair	33
Jersey	fair	14
Karachi	sun	35
Kuwait	sun	33
L. Angeles	sun	20
Las Palmas	sun	23
Lima	sun	25
Lisbon	cloudy	23
London	fair	18
Lux.bourg	rain	14
Lyon	cloudy	17
Madeira	fair	20
Madrid	fair	24
Majorca	fair	20
Malta	sun	18
Manchester	fair	14
Manila	fair	33
Melbourne	shower	18
Mexico City	sun	25
Miami	sun	26
Milan	shower	20
Montreal	rain	8
Moscow	cloudy	5
Munich	rain	12
Nairobi	fair	27
Naples	fair	17
Nassau	sun	27
New York	fair	13
Nice	fair	19
Nicosia	fair	21
Oslo	fair	5
Paris	cloudy	17
Perth	shower	21
Prague	rain	11
Rangoon	sun	35
Reykjavik	fair	7
Rio	shower	27
Rome	fair	19
S. Frsco	fair	18
Seoul	sun	13
Singapore	fair	31
Stockholm	cloudy	4
Strasbourg	rain	15
Sydney	fair	19
Tangier	sun	22
Tel Aviv	fair	24
Tokyo	fair	13
Toronto	sun	14
Vancouver	rain	12
Venice	shower	18
Vienna	rain	13
Warsaw	cloudy	10
Washington	sun	19
Wellington	fair	18
Winnipeg	fair	6
Zurich	rain	14

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FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

BASF and Du Pont in Asian venture

BASF of Germany and Du Pont of the US, two of the world's leading nylon manufacturers, have agreed a $750m joint venture in Asia to manufacture 8 per cent of the world output of nylon raw materials. Page 12

Geotek and RWE plan radio merger
Geotek Communications, a fast-developing US telecoms company, and RWE Telliance, part of the German RWE industrial group, plan to merge their public access radio interests in Germany. Page 12

Bank of Tokyo-Mitsubishi helps unit
Bank of Tokyo-Mitsubishi, the world's largest bank, is to provide further financial relief of up to Y44bn ($407m) to its troubled trust banking subsidiary, Nippon Trust Bank, to cover write-offs of bad loans. Page 13

Serfin seeks capital injection for bank
Grupo Serfin, Mexico's third-largest financial group, is understood to be looking for a foreign partner to help recapitalise its troubled bank. Serfin is hoping to raise $500m by the middle of the year. Page 14

Warning brings cut in Smurfit forecasts
Analysts cut 1996 and 1997 profits forecasts for Jefferson Smurfit after the Irish group warned the current downturn in the market could extend into 1997. The group reported record results for 1995, with pretax profits rising to I£420m ($662m), up from I£119m before exceptional items in 1994. Page 15

Liffe to begin euroyen trading
Trading is to begin today at the London International Financial Futures and Options Exchange (Liffe) of the euroyen, the yen short-term interest rate future and the second most popular money market futures contract in the world. Page 18

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BASF	430	+	13.5
BMW	820	+	21.5
MAN Pref	314	+	9.5
Porsche	880	+	35
Schmalbach Lub	240	+	12.5
Thyssen	278.8	+	8.4
NEW YORK ($)			
Rises			
Diasa Corp	35	+	3½
[illegible]	32¼	+	2½
Motorola	55¼	+	4½
Waterhouse	36¼	+	3¼
Falls			
Toro	31½	−	1½
Vesta Insco	29¼	−	1¼
LONDON (Pence)			
Rises			
Beazer	408	+	28
Cortecs	310	+	23
Micro Focus	733	+	40
Sentry Farming	218	+	44
Falls			
Avocet Mng	213	−	14
Toy Options	99	−	8
TORONTO (C$)			
Rises			
Allelix Bio	21¾	+	1¾
Cognos	82¾	+	4¼
[illegible]	17¼	+	1
Enerflex Sys	25¾	+	1¾
Sciotrex	16	+	2¼
Transat AT	18	+	2¾
PARIS (FFr)			
Rises			
Bongrain	2604	+	124
Cap Gemini S	173	+	7.8
Elf Aquitaine	370	+	13.9
Lyon des Eaux	477	+	13.8
Falls			
GTM-Entrepose	338	−	10.2
Worms Cie	272	−	12.9
TOKYO (Yen)			
Rises			
Godo Shusei	852	+	40
Mazda Motor	472	+	28
Mercian Corp	862	+	41
Falls			
Ando Constn	593	−	30
Daishowa Paper	987	−	53
Takaoka Elec	680	−	31
HONG KONG (HK$)			
Rises			
FPB Bank	2.878	+	0.18
Fortel	0.54	+	0.17
Oxford Prop&Fin	15.4	+	1.3
Peace Hill	2.85	+	0.2
Falls			
CP Pokphand	3.575	−	0.225
Melco Intl	2.35	−	0.15
BANGKOK (Baht)			
Rises			
Chiangmai Frz	44	+	2.8
Thai Glass	130	+	6
Falls			
S&J Intl Ent	35	−	3.5
Siam Com Life	27	−	3
Univenture	32	−	3
White Group	30.25	−	2.5

New York and Toronto prices at 12:30.

Suez on course for return to profit

By Andrew Jack in Paris

Suez, the French flagship industrial and financial holding group, yesterday said it was on course for a return to profitability this year after reporting losses of FFr4bn ($780m) for 1995.

The results – compared with losses of FFr4.8bn in 1994 – included operating losses of FFr2.7bn, against FFr3.6bn, before additional restructuring provisions announced in the first half of a further FFr2bn, against FFr805m. These were partly offset by capital gains from the sale of assets.

Yesterday's results are the first annual figures to be produced since a revolt by leading shareholders at last summer's annual general meeting which led to the ousting of Mr Gérard Worms, the group's former chairman.

Mr Gérard Mestrallet, his replacement, said he was maintaining the dividend with the support of his board. He aimed to generate a 10 per cent return on capital in the medium term. "1996 is the real year of the redressment of Suez and a return to profits," he said.

He said 70 per cent of the group's "doubtful" property commitments were now provisioned, up from 49 per cent at the end of 1994, and he maintained his commitment to have disposed of property activities by 2001.

Mr Mestrallet did not rule out the possibility of additional provisions if the property market continued to deteriorate.

In spite of rumours about the sale of Indosuez, the group's banking arm, Mr Mestrallet emphasised that it was an integral part of the group and highlighted efforts to restructure it, including a FFr1bn capital injection, the appointment of new management and a fresh strategy, unveiled earlier this year, to refocus the arm as an investment bank in Europe and Asia.

Indosuez reported losses of FFr415m for the year, compared with losses of FFr1.1bn in 1994.

There was a profit of FFr758m, down from FFr980m, from Société Générale de Belgique, the Belgium-based holding company which is controlled by the group.

Mr Mestrallet said the action plan he announced to shareholders after his appointment last July was well under way, with non-core assets sold, restructuring of other investments taking place, and the number of staff in the holding company halved.

The results do not include capital gains of FFr1.3bn on the sale earlier this year of Gartmore, the UK-based fund management arm controlled by Suez, to National Westminster Bank.

Lex, Page 10

Investment portfolio turnround lifts AMP

By Nikki Tait in Sydney

A sharp turnround in the value of its investment portfolio helped the AMP Society, Australia's largest life office and owner of the Pearl insurance company in the UK, to post an after-tax profit of A$1.95bn (US$1.5bn) for 1995. This compares with just A$506m in the previous year.

The consolidated group's total income rose almost threefold, from A$6.08bn to A$17.9bn. But this was largely due to a A$12bn-plus turnround in the value of investment assets. In 1994, the AMP wrote down its investment assets by A$5.12bn, while last year it enjoyed a A$6.85bn appreciation.

Australian insurance companies are required to take changes to the value of their investment portfolios into the profit and loss account – an accounting treatment which adds considerable volatility to reported results.

Net investment income was also sharply higher, at A$4.15bn, compared with A$3.48bn, but total premium income fell, from A$7.57bn to A$6.75bn.

The AMP said the latter trend reflected a 13 per cent decline in single premiums. Sales in the UK were "very depressed".

Total expenses rose from A$2.17bn to A$2.38bn. However, the 1995 figure included a A$203m item to cover revamping Pearl's operations – only part of which has been spent so far. Assets under management rose 17 per cent to a record A$86.4bn.

In spite of the fall in premium income, the AMP said it was pleased with the general outcome – taking particular comfort from a fall in policy surrenders from A$3.94bn in 1994 to A$2.48bn last year. It said its Australian market share in traditional products had improved.

The group also revealed that it had made moves towards seeking a banking licence in Australia. Mr George Trumbull, the AMP's managing director, said the group had held discussions with the Reserve Bank, the central monetary authority, and the former Labor government.

While the AMP had not applied for a banking licence, he said it would pursue the possibility if the new conservative coalition government made "changes that are advantageous to the banks but disadvantageous to us".

As in other countries, the demarcation lines between insurance companies and banks have become blurred in Australia.

In the course of the recent election campaign, the coalition government indicated it would allow the banks into the rapidly expanding superannuation market, permitting them to run "retirement savings accounts" as an alternative to superannuation funds for small superannuation accounts.

By contrast, Mr Trumbull remained silent about the progress of AMP's internal review of the group's corporate structure and the possibility of demutualising – turning into a conventional shareholder-owned company.

Concept of shareholder value kicks in at German industrial group

Daimler runs into diversion on the road to reform

It is an irony of fate that public prosecutors have started an investigation into the conduct of Daimler-Benz's top executives just when the company is trying to mend its ways.

The investigation follows a suit filed by a shareholders' association, a well-known group of critics of German companies' attitude towards their shareholders. It claims Daimler misled shareholders in May when it gave no indication of the troubles that surfaced a few weeks later.

The suit may never make it to court but the company's conduct towards its shareholders remains a matter of continued interest. Today, at its annual news conference, Daimler will explain what went wrong last year, presenting the worst loss by a German company, a staggering DM5.7bn ($3.8bn).

As the criminal suit shows, shareholders are reeling from Daimler's pursuit of the "integrated technology concern" that it so desperately wanted to be until recently. With the appointment of Mr Jürgen Schrempp as chairman in May, the company set out to transform its businesses and its culture, and to improve its once cavalier attitude towards investors.

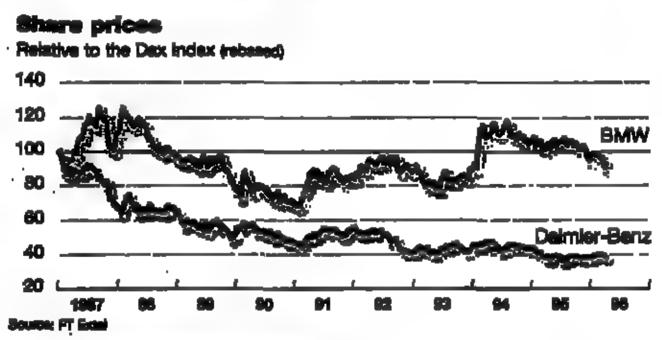
Shareholders must now be wondering whether the promised changes are for real. The indications from Mr Schrempp are that he is ready to risk change and question former taboos.

Action taken over the last 11 months includes:

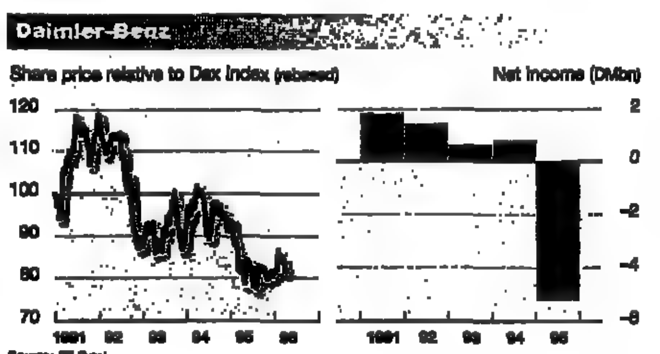
- a brutal cost-cutting programme at Daimler-Benz Aerospace (Dasa), where an increasing degree of production is to be relocated outside Germany;
- the dismantlement of AEG, the perpetually unprofitable industrial group;
- the decision to withdraw financial backing for Fokker, Dasa's Dutch regional aircraft subsidiary.

More change is on the way. Dornier, Dasa's German producer of regional aircraft, will probably have to go, unless Daimler finds a partner, according to Mr Eckard Cordes, the latest appointee to Daimler's management board.

MTU, the aero-engine maker, is not expected to survive in its current form after co-operation talks with BMW-Rolls Royce came to nothing. Daimler is also pushing to turn Airbus into a genuine commercial operation, free from the constraints of costly work-share agreements. Attempts to turn Airbus into a commercial company were resisted by Aérospatiale, the French partner in the four-nation project.



Source: FT Extel



Source: FT Extel

Another problem is the European truck division of Mercedes-Benz, whose trucks have fallen behind those of its competitors, although this may change when the company introduces new trucks at the end of this year. In response to criticisms that the company has paid scant regard to shareholders, Daimler will be introducing a share options scheme for 170 top executives. The idea is to give managers an incentive to perform, and to ensure that their personal financial interests coincide with those of their shareholders.

Mr Cordes, a close ally of Mr Schrempp, says: "In the past Daimler-Benz suffered from a lack of profit-orientation... Of course, we asked ourselves whether we could afford to launch a system like this in a year when we made DM6bn in losses."

The company expected opposition from its workforce, but the works council proved surprisingly co-operative. Opposition came from trade union representatives on the supervisory board, who feared that managers may look too closely to the share price.

The ensuing internal debate has shown that the concept of shareholder value is beginning to shift from an abstract notion to a concrete reality. But some aspects of the new approach originated under Mr Edzard Reuter, the previous chairman, a man once hailed as a visionary who has since become everybody's favourite bogeyman.

The most notable change taken during the Reuter days was the decision to seek listing on the New York Stock Exchange and to adopt US accounting rules in the process. For a German investor, not used to being told the breakdown of a company's assets or the regional and sectoral split of profits, US accounting rules provide a bewildering set of information.

When Daimler adopted US accounting principles in 1993, financial directors of other German companies reacted furiously, fearing an end to the cosy days when companies could keep important financial information from their shareholders. With hindsight, the move proved to have been one the most instrumental changes that has taken place at the company.

But even though the process of change began before Mr Schrempp's appointment, the pace of change has accelerated. The 35 business units have been pruned to 25, each operating under a target of 12 per cent return on capital employed, and the need to provide a strategic fit with the rest of the group. The definition of strategic fit has narrowed. Daimler no longer sees itself as an "integrated technology concern" but as a transportation group.

The company now assures its investors that if the two goals – profit target and strategic fit – were in conflict, profits would take priority over strategic fit. In the meantime, the company will be taking a hard look at its own internal structures, although company officials persistently deny rumours that Daimler is about to tear itself apart. Mr Reuter introduced the current structure in the late 1980s, when Daimler became a holding company, with four independent divisions: Mercedes, Dasa, AEG and Debis, a financial service unit. But AEG is gone and Dasa is shrinking, so that the question is bound to arise whether it makes sense to have separate managements for Daimler and Mercedes-Benz.

Such a dramatic move is unlikely to happen this year, although in the long run a far-reaching overhaul is conceivable, according to one senior manager. Whatever happens, Daimler is unlikely to become a normal company for some time.

Wolfgang Münchau

Blockbuster in talks on European acquisitions

By Alice Rawsthorn in London

Blockbuster Video, the chain of video rental and retail stores owned by Viacom, the US entertainment group, is in acquisition talks to accelerate its European expansion plans.

Mr Nigel Travis, senior vice-president of Blockbuster in Europe, said he aimed to expand from the present 760 outlets to about 2,000 across the continent by 2000.

Part of this expansion will be effected by opening new stores, but Mr Travis confirmed that Blockbuster was in "discussions" with European companies concerning acquisitions.

The expansion in Europe comes at a time when the company's 3,000 outlets in the US market face fierce competition from discount store groups, notably the Wal-Mart chain.


Mel Gibson's 'Braveheart' helped set a UK video rentals record

Wal-Mart has become the leader in US video sales, although Blockbuster is still number one in rentals. Viacom recently appointed Mr William Fields, executive vice-president of Wal-Mart responsible for its cut-price video sales, as chief executive of Blockbuster.

Expansion in the less competitive European market forms part of Blockbuster's efforts to improve its financial performance. The company has had a European presence since 1989, when it opened stores in the UK and Spain.

It now has 690 stores in the UK and 21 units in Spain. It recently diversified into Germany and Italy, and plans this year to establish a presence in Portugal.

Mr Travis said he hoped to have at least 200 stores in markets including Spain, Italy and Germany, and to expand into other European countries as well as into the Middle East.

Sales of videos are still increasing in Europe and the rental sector, having contracted for the past four years, returned to modest growth last year.

Blockbuster's UK stores last week rented a record 1m videos, helped by demand for the Oscar-winning *Braveheart*, which it rented at £3.50, against £2.99 for other new releases.

Astra chief criticises wave of drugs mergers

By Hugh Carnegy in Stockholm

Mr Hakan Mogren, chief executive of the fast-growing Swedish pharmaceutical group Astra, yesterday criticised the wave of mergers in the industry and said Astra saw no benefits for itself in such a move.

"Looked at from the outside, I cannot understand why some of these mergers have been done," Mr Mogren said. "You get the impression they might be two companies without high growth rates and with cost problems. You mix old problems with new problems and get drowned," he said in an interview.

Consolidation in the pharmaceutical industry in the past two years has included last month's merger of Switzerland's Sandoz and Ciba to form Novartis; the merger of Sweden's Pharmacia with Upjohn of the US; and the £9.1bn ($13.8bn) acquisition last year of the UK company Wellcome by its rival Glaxo.

Such deals have prompted speculation that medium-sized groups such as Astra, best known for the world's fastest growing anti-ulcer drug, Losec, will be caught up in the restructuring.

But Mr Mogren said overall size was not the key factor. "The total ranking [in the global industry] is not as important as reaching critical mass and having a leading position in the segments of the market you are in."

He stressed Astra's recent growth record – in which group sales have grown at least twice as fast as overall market growth – meant it would risk becoming distracted if it became involved in a merger. Instead, its strategy was to combine organic growth with specific deals, such as its £200m purchase last year of the research and development operations of Fisons of the UK.

"If you are growing at a very high speed, you cannot do mergers and acquisitions at the same time," Mr Mogren said.

Astra's most-traded A share suffered a sharp fall yesterday, tumbling SKr12.00 to close at SKr294.50 as investors shunned non-cyclical stocks and reacted nervously to news of marginal price cuts for small packages of Losec capsules in Sweden.

Astra's profits growth is set to be slowed this year by the stronger Swedish krona. Investors have also shown concern about possible competition to Losec, which accounted for more than 40 per cent of the group's SKr36bn ($5.4bn) sales in 1995.

But Mr Mogren was bullish about Astra's growth prospects. In 1995, profits rose 25 per cent to SKr12bn on sales up 19 per cent, driven by an increase of more than 20 per cent in Losec sales.

COMPANIES AND FINANCE: EUROPE

BASF in $750m Asian venture with Du Pont

By Jenny Luesby

BASF of Germany and Du Pont of the US, two of the world's leading nylon manufacturers, have agreed a $750m joint venture in Asia to manufacture 8 per cent of the world output of nylon raw materials.

The companies intend to site the plant in China. However, they had postponed a final decision on location following China's imposition of a 40 per cent tax on machinery imports, said Mr Max Dietrich Kley, BASF's finance director.

They would not be willing to build the plant in China if this tax was adhered to, said Mr Kley. But he hoped it would be possible to negotiate more favourable terms – especially since the plant was at the front edge of technology, and China was keen to promote high-technology investments.

Mr Eduard VanWely, general manager of Du Pont's nylon business, said the new plant would be the most competitive in the world. By combining the nylon technologies of both BASF and Du Pont, it would change "the competitive landscape for nylon for the next quarter century", he said.

Construction will begin in 1998, for completion by 2001. The plant will manufacture 350,000 tonnes a year of adiponitrile. Both BASF and Du pont use adiponitrile as a raw material, although they specialise in different nylons.

BASF claims to be a market leader in nylon 6, and Du pont in nylon 66, but neither company is willing to reveal its market share.

Both nylons are used to make fabrics, carpets and plastics, but they melt at different temperatures, affecting their usefulness for dyeing or high specification plastics. On a world-wide basis, the nylon market is growing slowly, but in Asia demand for adiponitrile is rising by 80,000 tonnes a year, equivalent to 2 per cent of current world output.

This growth has been most marked in China, where the country's textiles and clothing industry has been switching to synthetic fibres following the failure of successive cotton crops, as a result of bollworm infestation.

Max Dietrich Kley: plant at the front edge of technology

Last year, synthetic fibre output in China rose by 21.6 per cent, while imports increased by 86 per cent.

Cotton production is now recovering, but BASF did not expect this to curb growth in the Chinese nylon market, Mr Kley said. With land at a premium, "the scope for cotton is limited by people's need to use their land for agriculture and food".

Chemical companies have accounted for a large share of the inwards investment into China, with Du Pont among the west's vanguard investors. BASF has been something of a latecomer, but has recently more than doubled its Chinese investment programme.

Ten days ago, the German chemicals company unveiled a DM3.5bn ($2.35bn) investment in a petrochemicals complex in Nanjing. It is also building a vitamin E plant, and promising a DM1bn investment in the raw materials for polyurethane. Overall, the company is set to invest nearly DM6bn in new capacity in Asia over the next five years.

RWE plans mobile radio merger

By Alan Cane

Geotek Communications, a fast-developing New Jersey-based telecoms company, and RWE Telliance, part of the German RWE industrial group, plan to merge their public access radio interests in Germany. A deal would create the country's second-largest network.

Public access mobile radio networks are used by businesses such as taxi and delivery services which need radio communications between vehicles and despatch points.

The combined network, owned equally by the two partners, will service about 30,000 business subscribers and will cover most of Germany.

RWE Telliance is a wholly-owned unit of RWE, one of Germany's largest industrial groups which is based in Essen, North Rhine-Westphalia.

The networks to be merged under the agreement are Regionet, owned by Geotek, and Terrafon Bundelfunk, owned by RWE Telliance. The intention is to create a digital network offering an integrated service including telephony and despatch, messaging and mobile data applications.

Geotek has overseas interests in Germany and in the UK, as well as Spain, Portugal and eastern Europe.

Mr Yaron Eitan, Geotek president and chief executive, noted in the company's annual report that: "It is our intention, when possible, to capitalise on our digital private radio technology in penetrating and upgrading new markets."

Integrated radio services for vehicle fleets and similar customers are seen as a fast-growing niche market with substantial potential.

Geotek claims to have developed a technology which enables it to cover large areas comparatively inexpensively using fewer radio cells than other operators.

A definitive agreement is expected by the summer and the merged company expects to begin offering digital services in the second half of 1997.

Bötsch tries to keep lines uncrossed

Liberalising Germany's telecoms market is proving problematic

Mr Wolfgang Bötsch, Germany's minister for post and telecommunications, is too much the ebullient Bavarian to feel paranoia. That does not mean, however, that people are not getting at him.

He is swiftly coming to terms with the complexities of reconciling the powerful, conflicting interests that stand in the way of freeing-up the German telecoms market, Europe's largest, by January 1 1998, in line with European Union rules.

The liberalisation process, however, is fraught with problems.

One such difficulty involves a series of broad-ranging price cuts agreed in February 1994 with Mr Helmut Ricke, then chief executive of Deutsche Telekom. The last of these demands that the operator cut its prices by 8 per cent minus the rate of inflation on January 1 1998.

Last week, however, Mr Ron Sommer, Mr Ricke's successor, made clear he felt the cuts were still open for negotiation. The German monopoly operator, which is due for partial privatisation in November this year in one of the world's largest flotations, has the backing of Mr Theo Waigel, the finance minister, who is keen to ensure the flotation is successful.

Then Mr Bötsch has by July to push through the Bundestag, or lower house of parliament, a complex law regulating the newly liberalised market.

To do so, he must outflank the opposition Social Democrats. They have unexpectedly come up with plans to create a far bigger regulatory authority than was agreed in negotiations with the government last November.

To add to his woes, Germany's 16 Länder, or states, which sit in the upper house, or Bundesrat, are beginning to demand more influence over the future regulatory authority.

On top of all this, Mr Bötsch faces the prospect of a legal challenge in the constitutional court from hundreds of Germany's municipalities demanding that Deutsche Telekom and its rivals pay to transport their services across cables, which in Germany are owned by the councils.

In a recent Bundesrat vote, a majority of states backed the demands of the municipalities to be able to charge for the carriage of telecoms services.

Mr Bötsch is unimpressed: "One Land with six votes would have tipped it against the charges," he says scornfully. "If North Rhine-Westphalia or Saxony had voted the way Bavaria had voted, then the motion would have been thrown out."

There are, however, more substantial opponents. A group of Germany's largest companies including RWE, Thyssen, Viag and Mannesmann, all with fledgling telecoms interests, are in conflict with the minister after he allowed Deutsche Telekom to offer corporate clients an extensive programme of discounts on their telecoms services.

Wolfgang Bötsch: minister unmoved by rising tide of difficulties

The companies, grouped in an association called VTM, are complaining to the European Commission that if Deutsche Telekom is permitted to award discounts of up to 39 per cent, their own telecoms efforts will be in jeopardy.

This row has given glimpses of the unusually bad atmosphere developing between the ministry, Deutsche Telekom and the would-be private operators. Such a confrontational mood is unlikely to help preparations for Deutsche Telekom's listing in November.

"I expected it to be cleaner than this," says Mr Peter Mihatsch, head of Mannesmann's telecoms activities. "It has reached a point where it is unacceptable. It's gone too far."

Mr Bötsch seems unmoved by the rising tide of difficulties. He says that, given Germany's federal traditions, he accepts that the Länder should have a say on regulation. He refuses, however, to contemplate an unwieldy regulatory body with 16 different voices demanding to be heard.

"In principle it is right that the Länder want to have a participation in the regulatory questions, but we have to negotiate how this can work," he said.

Meanwhile, Mr Bötsch's civil servants insist that Mr Sommer at Deutsche Telekom is mistaken in believing he can renegotiate the tariffs agreed with his predecessor in 1994.

If necessary, the ministry has indicated, the tariff changes will be introduced not on January 1 1998, as originally planned, but on December 31 1997 – one day before the market is fully liberalised.

As for the VTM, Mr Bötsch points out that it and other lobby groups do not have a formal right to be consulted on questions such as the controversial Deutsche Telekom discounts. In practice, however, he insists that the private operators have been given opportunities to air their views and their concerns have been taken into account.

The ministry, meanwhile, is doing everything it can to ensure the new telecoms law is passed by July so that both Deutsche Telekom and its competitors have a proper idea of what competition will look like after 1998.

Verordnungen, or directives, are now being drawn up based on criteria set by the European Commission, which will define how interconnection charges – the prices operators charge each other for reciprocal use of their networks – are set.

By July, the ministry should have published model licences giving details of reliability, technical know-how, and other criteria which every operator that wants to compete in Germany's liberalised telecoms market will have to meet.

It is a tough programme, but Mr Bötsch seems confident that the schedule will be met and the results will be beneficial for the national operator: "If Deutsche Telekom can resist competition within Germany, then it can make competition outside Germany," he argues.

Michael Lindemann and Alan Cane

Svedala launches bid for Tampella

By Greg Mcivor in Stockholm

Svedala Industri, the Swedish mining and construction equipment manufacturer, yesterday launched a SKr1.83bn ($276m) takeover bid for Tampella Corporation, a Finnish engineering group in which Norway's Kvaerner, the shipping and engineering group, is the biggest shareholder.

Svedala said it was offering one new Svedala share for every 16 Tampella shares, equivalent to a 38 per cent premium on Tampella's pre-bid share price.

Kvaerner signalled it was interested in the Svedala offer, which follows the Norwegian company's £904m ($1.4bn) acquisition of Trafalgar House, the UK construction and engineering conglomerate. It said yesterday it was doubtful whether Tampella's existing operations would form part of its core businesses after the Trafalgar House purchase.

Kvaerner bought its 26 per cent stake in Tampella in February as part of its $26.6m purchase of the Finnish group's loss-making chemical recovery system supplier, Tampella Power. It paid $58.9m for the stake in the parent company and stands to make a capital gain of about $12m from the Svedala offer.

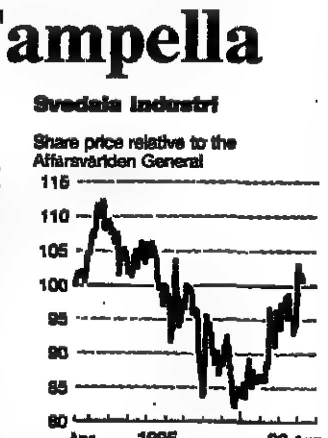
Mr Thomas Older, Svedala chief executive, said: "Everyone can see the logic in this transaction. It is an excellent industrial fit." The merger would give Svedala, which earned pre-tax profits last year of SKr736m on sales of SKr11bn, a presence in 40 countries with 14,000 employees, and provide growth opportunities in Asia, Africa and South America, he added.

However, some Svedala investors were unenthusiastic and its shares dropped SKr10 to SKr210. Tampella's stock jumped 26 per cent, closing at FM8.70 from FM6.90.

Tampella made no comment on the bid. It comprises three divisions: Tamrock, a mining equipment manufacturer; Detec International, a hydraulics supplier, and Roxon, a bulk materials-handling company. Excluding Tampella Power, the group last year recorded pre-tax profits of FM74m ($15.9m), on net sales of FM3.37bn. Svedala, which is being advised by Merrill Lynch International, said it would publish a prospectus on May 20 and set the deadline for acceptance as June 10.

Svedala Industri

Share price relative to the Affärsvärlden General



Source: FT Extel

NEWS DIGEST

Sulzer sees profits rebound this year

Sulzer, the Swiss engineering and medical technology group, said yesterday it expected 1996 net profit to rebound from last year's SFr92m to around 1994 levels of SFr195m ($162m). The company said higher order levels "promise a substantial rise in income" in 1995. Orders rose by 3 per cent last year to SFr5.7bn, in spite of the strong Swiss franc, and were 4 per cent up to SFr1.5bn between the first quarters of 1995 and 1996.

The group recorded sales of SFr5.7bn in 1995, a rise of 2 per cent on the previous year, but operating income sank to SFr173m, from SFr289m in 1994.

Sulzer blamed an "accumulation of extraordinary circumstances" for the poor 1995 results. These included provisions of more than SFr50m for higher restructuring costs, a patent infringement suit in the US, and individual bad debt risks.

Profits were further dampened by currency translation effects, put at more than SFr70m, a depressed construction market and "an unexpected decline" in the weaving machinery market. The company said its Sulzer Roteq (pumps and compressors) and Sulzer Winterthur (engineering) units performed well last year and expected good results for 1996.

Sulzermedica also expects better results after being hit last year by restructuring costs, negative currency effects, and provision for an adverse US ruling on a hip-joint patent which the company is appealing.

Sulzer Rüti, the world leader in weaving machinery, and Sulzer Infra, the group's building technology arm, expect reduced losses this year following restructuring and cost-cutting measures. *Frances Williams, Geneva*

VA Stahl expects slip

VA Stahl, the Austrian steel company, yesterday predicted slightly lower earnings and sales for this year after a record performance in 1995. The company, which was privatised last year, reported a five-fold increase in group net income from Sch645m to Sch3.01bn ($287m) because of strong demand for quality steel products.

Sales climbed 13 per cent from Sch29.88bn to Sch33.80bn, and pre-tax operating profit more than doubled from Sch1.19bn to Sch3.04bn. All divisions posted higher revenue, and overall raw steel output advanced 5 per cent from 3.97m tonnes to 4.55m tonnes. The company kept its workforce roughly steady and increased revenue-per-employee by 14 per cent.

VA Stahl attributed its performance to strong demand for its high-quality steel products. A slowdown in economic growth in western Europe would depress earnings this year, but long-term contracts, good business with long steel products and further growth in eastern and central Europe should have a stabilising effect on the performance, the company said. VA Stahl is the core of Austria's former nationalised industries, which suffered heavy losses in the 1980s and early 1990s. OIAG, the state holding company, still holds 39 per cent of the shares. *Eric Frey, Vienna*

Sydkraft stake for Norwegians

The Swedish city of Malmo has sold shares representing 7 per cent of the votes and 4.4 per cent of the capital in Sydkraft, the power producer, to Statkraft of Norway. This is the latest in a series of cross-border rationalisation moves within the Nordic power industry, triggered by deregulation in the region's energy markets.

Malmo said that the Swedish municipalities of Oskarshamn and Landskrona had sold further shares totalling 1.1 per cent of the votes and 0.6 per cent of the capital in Sydkraft to the Norwegian concern. The shares have been sold at a price of SKr140.50 each, bringing the total value of the transactions to SKr1.35bn ($201m).

After the sale, the Norwegian state-owned Statkraft will hold 8.1 per cent of the votes and 5.1 per cent of the capital in Sydkraft. Mr Lars Thulin, Statkraft president, said his company intended "to participate in the development of the electricity industry in the expanding Nordic market and regards the investment in Sydkraft as a long-term industrial holding". *Reuter, Stockholm*

Thyssen unit buys Saurer arm

Saurer, the Swiss textile machinery and components maker, has sold SMB North America, a wholly-owned subsidiary in Selma, North Carolina, to Thyssen Umformtechnik, a unit of Germany's Thyssen Industrie. SMB has an impression die forging plant built in 1992 which produces mainly steel piston crowns and wheel hubs for the motor industry. In 1995 it employed 120 workers and had revenues of about $12m.

Saurer said it was divesting SMB as part of its efforts to concentrate on its core businesses, encompassing textile machinery, transmission systems and surface metallurgy. *Reuter, Arbon, Switzerland*

Crossair predicts advance

Crossair, the regional airline subsidiary of Swissair, expects a significant rise in 1996 profit due to higher sales volume and better efficiency. "We expect a significant rise in profits in 1996 due to larger business volume and improved efficiency," Crossair said in its 1995 annual report.

The carrier said it expected to complete 128,000 flights with 4.15m passengers in 1996, an increase of 84 per cent from last year. It is currently undergoing its largest expansion programme, and by August this year 16 new aircraft will be added to its fleet.

But Crossair added that it was giving priority to retaining a competitive cost structure because competition between airlines was expected to remain intense and flight revenue would remain under pressure from the strong Swiss franc. *Reuter, Basle*

Shake-up at EVC

EVC, Europe's largest PVC producer, is overhauling its organisation to help it to achieve its earnings growth targets. "The purpose of the new structure is to extend EVC's leading position in the European PVC industry, reduce overheads by 25 per cent and [to] enable the board to focus on development opportunities," EVC said.

The company, floated on the Amsterdam bourse in 1994, posted 1995 net profits of Fl 163.9m ($98.37m), almost double its 1994 pro forma net of Fl 86.3m. EVC's strategy would, it said, continue to focus on concentrating its manufacturing assets at a minimum number of internationally competitive sites. No financial details were given. *Reuter, Amsterdam*

■ Gebrueder Maerz, the ailing German food group, said yesterday it would file for bankruptcy after its banks decided not to support a debt rescheduling. Maerz, a holding company for food and beverage companies, said its subsidiaries were not affected by the decision and the bankruptcy filing would affect only nine of its 2,100 employees. *Reuter, Rosenheim*

Uncertain future for Phoenix Bicycle

By Tony Walker in Beijing

Phoenix Bicycle, a Chinese icon, posted a 70 per cent drop in profit last year, raising doubts about its future.

The question for Phoenix, it seems, is not whether it will rise, but whether China's largest bicycle manufacturer risks falling further.

Shanghai brokers blame a poor product mix, cut-throat competition in the local bicycle market, rising raw materials costs and a lingering credit squeeze for Phoenix's plunge in after-tax profits to Yn36.3m ($4.35m). Turnover was also down.

Phoenix produced 5.4m bicycles in 1995, or almost 17 per cent of China's total production.

A glut in the domestic market and resistance to Chinese exports in international markets contributed to Phoenix's poor result. China's 300-odd bicycle makers produce 50m units annually for a home market capable of absorbing 30m. Bicycles in China, the main means of transport, number about 400m, which is one bicycle for every three people. But rising car ownership, growing affluence and improved urban transport seem likely to shrink the market – especially for Phoenix's mass-produced brands.

Reuters news agency quoted Phoenix as saying the company planned to increase exports this year to 35 per cent of output, from 25 per cent in 1995, cut production and sell off its 1995 inventory.

Phoenix was also negotiating a joint venture with a European motorcycle manufacturer to improve the quality of its scooters and mopeds. It sold 4,000 last year and hopes to increase sales to 20,000 this year.

But the company faces an uphill struggle in its efforts to restore its fortunes. It earned $54.7m from exports in 1995 of 1.3m bicycles, but anti-dumping measures in the saturated US and European markets are proving a constraint.

Phoenix, whose shares are listed on the Shanghai stock exchange, is not the only publicly listed bicycle manufacturer facing difficulties. Forever Bicycle, China's other main brand, is also likely to report a profit slump.

China exports 13m-14m bicycles a year and, with spare parts, earns about $700m.

Bank of Tokyo-Mitsubishi aids trust unit

By Gerard Baker in Tokyo

Bank of Tokyo-Mitsubishi, the world's largest bank, is to provide further financial relief of up to Y44bn ($407m) to its troubled trust banking subsidiary, Nippon Trust Bank. The funds are needed to cover write-offs of bad loans at Nippon Trust in the financial year just ended.

The move, announced yesterday, marks another significant step towards the clearance of problem loans from the consolidated balance sheet of Tokyo-Mitsubishi, already one of the healthiest among Japan's generally weak banks.

A significant part of Nippon Trust was acquired by Mitsubishi Bank in October 1994 in what was largely a rescue operation. Nippon Trust, the weakest of the country's seven trust banks, had more than Y200bn in non-performing loans, or about 10 per cent of its total loan book, accumulated during the collapse of property prices over the last five years. Mitsubishi paid a similar sum for a controlling 68 per cent stake in the company. Since then it has been overseeing the steady write-down of bad debts.

In the year to the end of March 1995, Nippon Trust reported a net loss of Y164bn as a result of such write-offs, and it will report another substantial loss for the year to the end of last month.

The latest Nippon Trust losses stem from specific write-offs of bad loans to the country's collapsed housing loan companies. These lenders were founded by the main commercial banks in the 1970s, but are bankrupt, with up to two-thirds of their total lending of more than Y13,000bn thought to be unrecoverable. Under a government plan for the companies' liquidation, the creditor banks have been asked to abandon all their remaining claims on the companies.

The write-offs at Nippon Trust will mean that most of the bank's non-performing loans are now provided for, or written off completely.

Bank of Tokyo-Mitsubishi was formed on April 1 by the merger of Mitsubishi and Bank of Tokyo, another leading commercial bank. The reconstruction of Nippon Trust means the new bank, which offers a virtually unrivalled range of financial services in domestic and international markets, is now one of only a handful of Japanese banks to be largely clear of their immediate non-performing loan problems.

However, like most other leading lenders, it could still be dogged by fresh problem loans at other affiliated financial institutions, the scale of whose problems is only now beginning to emerge.

NEC ends desktop production in US

By Michiyo Nakamoto in Tokyo

NEC, Japan's largest personal computer manufacturer, is to stop making desktop PCs in the US, in a move that highlights the difficulties Japanese companies face in that market.

The company said the cost-cutting move would involve phasing out production of desktop PCs at its facility in Massachusetts over the next three to six months. The factory will be closed.

NEC will, however, continue to design and develop its PCs for the US market but will outsource the desktops. Production of notebook PCs, where Japanese companies are more competitive, would continue in the US, NEC said.

The Japanese company has yet to decide where to outsource its desktops, although it is going ahead this year with trial sourcing of between about 250,000 and 300,000 desktops from Packard Bell, the largest US supplier of home computers, in which NEC has a 19.9 per cent stake. In February, NEC made a further $283m cash injection into Packard Bell in exchange for non-voting preferred shares.

Japanese PC makers, which have concentrated on proprietary PC standards for the domestic market, have had difficulty building up market share in the US.

While companies such as Toshiba have successfully marketed notebook PCs, Japanese groups have not been competitive in the desktop market.

NEC, which entered the US market in 1987 and has manufactured locally all its PCs sold there, sold 550,000 units last year, of which 380,000 were desktops. That gave NEC a 2.4 per cent market share, according to the company.

Most of NEC's profits in the US had came from notebook PCs, said Mr Takashi Kuwabara, general manager of the international personal computer product marketing division.

NEC has had particular difficulty tapping the corporate market. By outsourcing its desktop PC production, the company hopes to cut costs, improve profitability and further expand its US PC business.

"The past 10 years were a period for catching up but the next 10 years will be the time for NEC to enter the top league," Mr Kuwabara said.

Indonesian carmaker ahead 39% but warns of downturn

By Manuela Saragosa in Jakarta and AFX-Asia

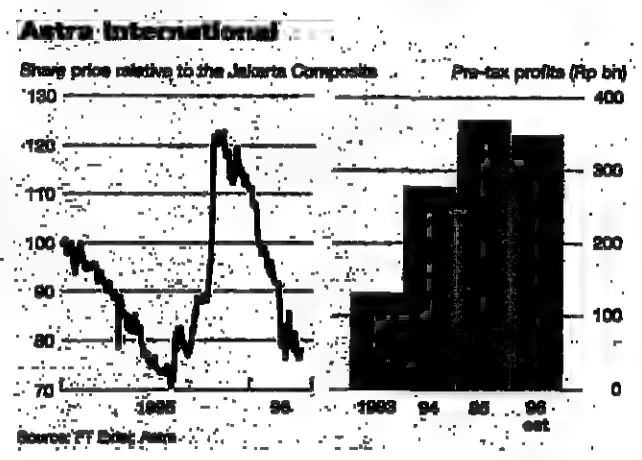
Astra International, *Indonesia's largest carmaker*, said its unaudited net profit last year rose 39 per cent but warned that earnings would fall this year. The forecast follows the government's decision to award tax and tariff concessions to manufacture a "national" car to a venture involving President Suharto's youngest son.

Speaking at an analysts' meeting in Jakarta, Astra's finance director, Ms Rini Soewandi, predicted net profit this year would fall from Rp370bn last year to Rp350bn ($150m) – still ahead of 1994's Rp279bn. Net profit was expected to decline as gross margins on cars were squeezed and Astra's market share for cars fell from 55 per cent in 1995 to 50 per cent this year, she added.

Astra, which assembles and distributes Toyota, Daihatsu, Isuzu and Nissan cars in Indonesia, said 1995 sales rose 46 per cent, from Rp8,900bn in 1994 to Rp13,000bn. However, this year sales are expected to rise only slightly, to Rp13,560bn.

Ms Soewandi said gross margins on cars were expected to fall about 20 per cent. "We don't expect to lower prices, but we will give more incentives to our dealers," she said. "But sales will drop, so margins will be affected and profitability of [the car] division will decline."

Astra, which also has interests in heavy equipment, electronics, financial services and agribusiness, said its automotive division contributed 42 per cent to net profit last year. Financial services contributed 10 per cent while heavy industry and agribusiness accounted for 6 per cent each. The company's telecommunications division booked a loss.



Total capital expenditure this year will fall from Rp2,600bn in 1995 to Rp1,400bn, with the car division taking a 46 per cent share of the total compared with last year's 51 per cent.

Astra said its car sales last month rose to 15,898 units from 9,454 in February, when a drop was recorded because of severe flooding in the capital Jakarta in the previous month.

Meanwhile, total March car sales in Indonesia were 27,916 units, up from 18,429 in February.

Astra International's share price was hit at the end of February when President Suharto passed a decree exempting his youngest son, Mr Hutomo Mandala Putra, from Indonesia's complicated tariff regime on car components and sales tax to develop what is being touted as a "national" car.

The car, which has been christened the "Timor", is a 1500cc sedan and will be manufactured in a technical assistance arrangement with South Korea's Kia Motors.

The move has angered Japanese car manufacturers, which dominate Indonesia's car market. Many of them work in joint-venture arrangements with Astra International.

News Corp ready to buy Ansett NZ

By Terry Hall in Wellington and agencies

News Corporation, which has a 50 per cent stake in Ansett Airlines, is prepared to buy the Australian carrier's New Zealand subsidiary in an attempt to overcome regulatory objections stalling Air New Zealand's plan to buy TNT's half-share in Ansett Australia.

New Zealand's Commerce Commission last week refused to sanction Air NZ's purchase of the TNT stake, saying it was not satisfied that the Air NZ-Ansett axis, which would result from the deal, would not acquire a dominant position in the country's aviation industry.

Both Air NZ and News Corp immediately vowed to complete the deal, and yesterday Mr Ken Cowley, executive chairman of Ansett and News Corp's Australian chief, made a whistle-stop visit to Ansett New Zealand bases in Auckland, Wellington and Christchurch.

One staff member told the New Zealand Press Association that Mr Cowley said News Corp wanted a quick resolution after the New Zealand Commerce Commission blocked the deal. News Corp was not prepared to let the issue drag on, as that was destabilising the airline and staff.

News Corp, Mr Cowley said, was determined to overcome regulatory issues that had been holding up the deal, and was prepared to buy Ansett NZ outright if necessary. He reaffirmed News Corp's long-term commitment to Ansett NZ and said closure or sale to some other party was not an option.

Mr Cowley declined to comment on discussions he had yesterday with Mr Jim Bolger, New Zealand prime minister.

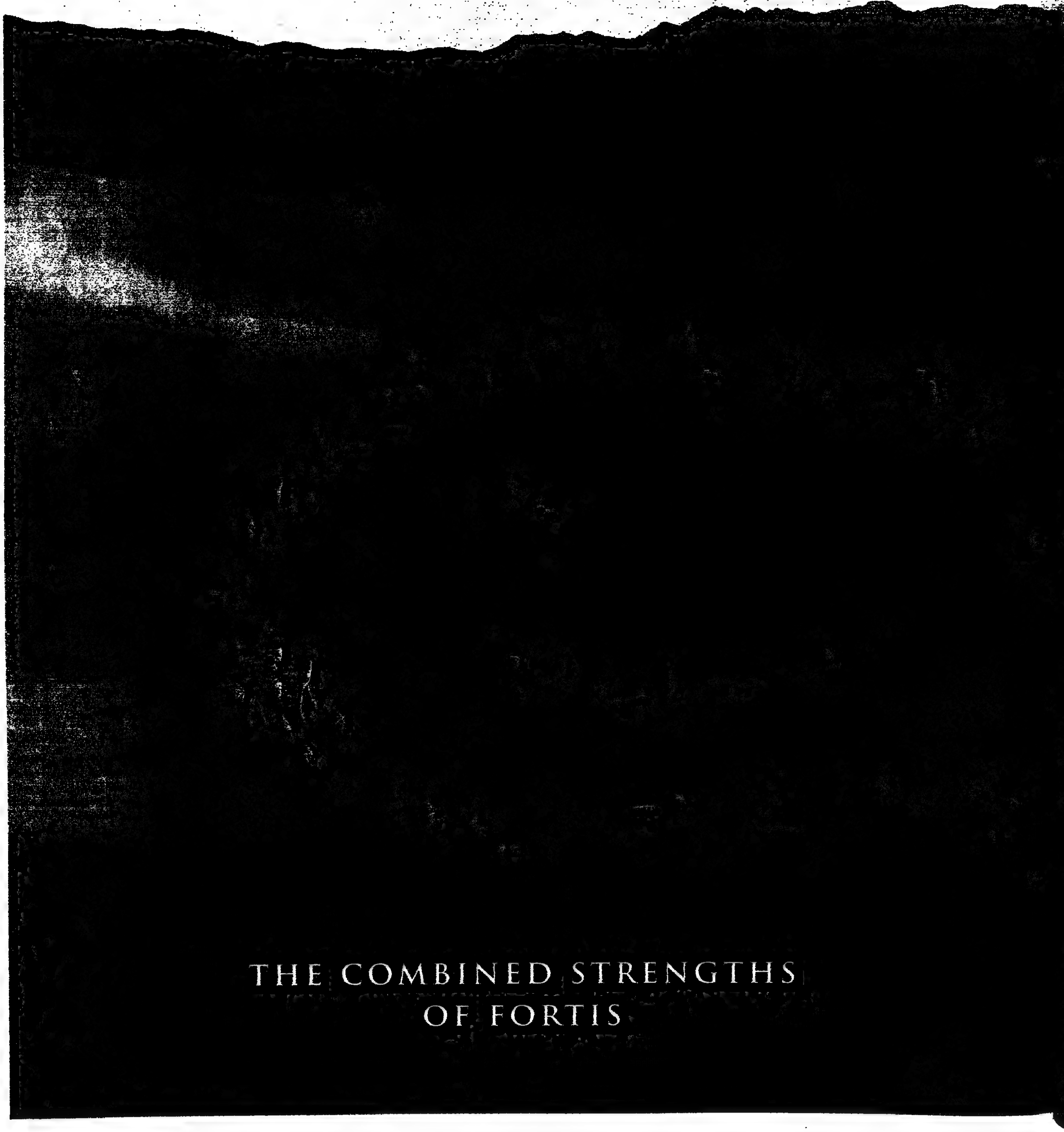
Air NZ said yesterday it was still examining its options after the Commerce Commission's ruling.

Tuntex Distinct slips

Tuntex Distinct, a leading Taiwanese chemical fibre maker, and flagship of the diversified Tuntex group, reported reduced earnings in 1995 because of weakness in the domestic economy, writes Laura Tyson in Taipei.

The company posted revenues of T$15.77bn (US$580m) last year compared with T$15.14bn in 1994. Pre-tax profits fell from T$3.07bn a year earlier to T$2.95bn.

Tuntex, which is also one of Taiwan's leading construction concerns, blamed the depressed earnings on the country's economic problems, particularly a depressed property market and construction industry.



Take a few companies at random, put them together, and what have you got? Just a list of names.

But if you can make these same companies work together in the right way, then you create something that can stand up to any threat. Five years ago, Fortis didn't exist. Today, Fortis has a balance sheet total of some ECU 115 billion, and is one of the world's largest financial service groups.

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Following the Fortis principle of freedom with discipline, they carry on doing what they do best. While preserving their individual character and specific qualities. And

[illegible] and Fortis AMEV are listed on the Brussels and Amsterdam exchanges respectively. Both are also listed in London and Luxembourg. Fortis AMEV has a sponsored ADR program in the United States. Fortis companies are among others: Australia: AIM Holdings, AMEV Family, Fortis Australia Ltd., Fortis Life Assurance, TGIO, VACC Insurance. Belgium: ACE Factors, AG 1824, [illegible] AMEV Onroerend Goed Maatschappij, AMEV-Ardanta, Barter Finance, BetaFin, CDK Bank, DETAM Financieringen, Falcon Leven, FMN Finance House, Fortis Investments, Fortis Industrial, Forum Schadeverzekering, GWK Bank, Interlloyd Verzekeringen, KBW Effectenbank, NeSBIC Groep, TOP Lease, VISA Card Services, VSB Bank, VSB Leven, VSB Onroerend Goed Financieringen, Singap[illegible]

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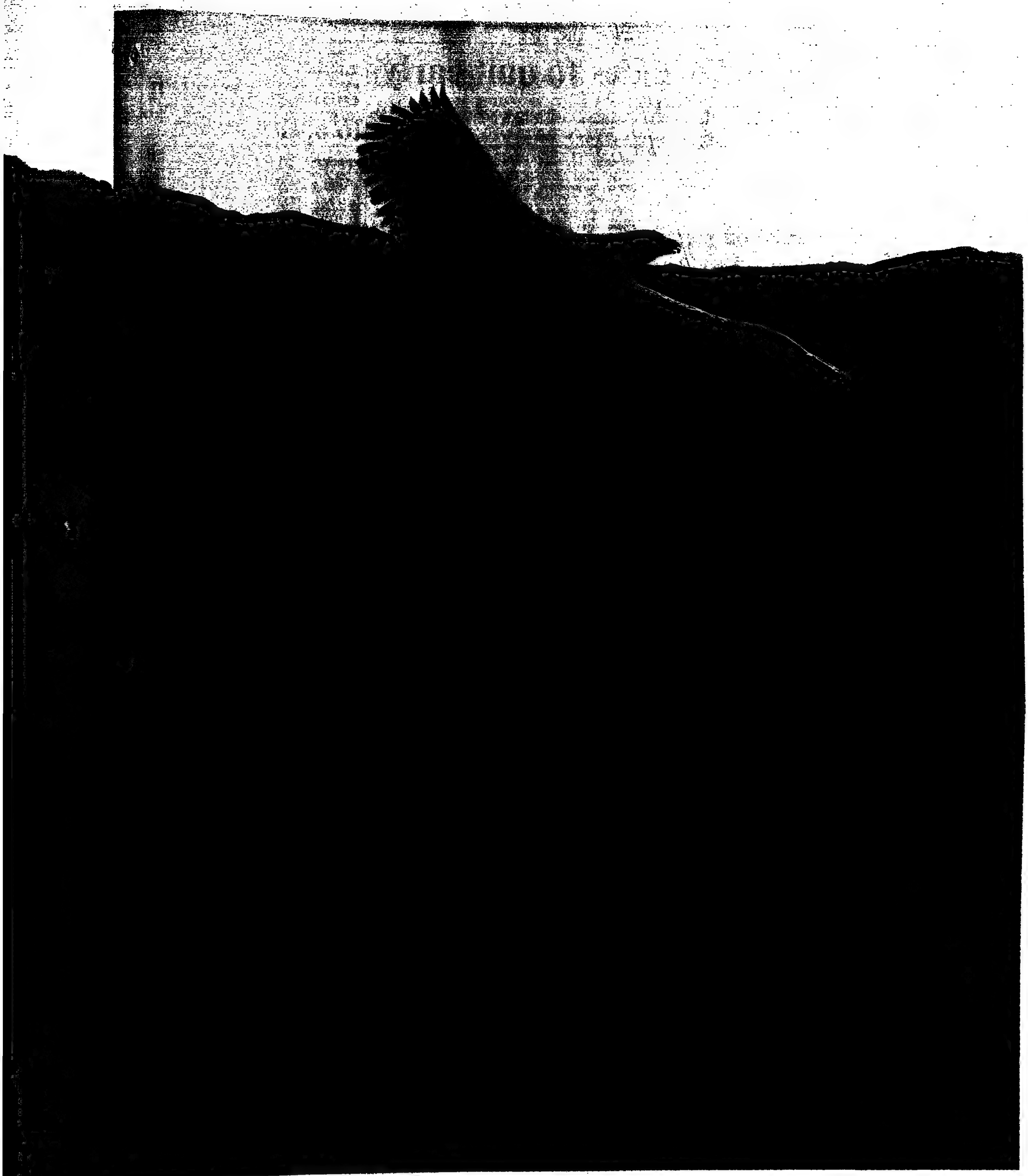

doing so, feeding enthusiasm for further :lopment.

This is one reason why Fortis in the ted States enjoys a leading position in a aber of specialized insurance market nents. In Spain, thanks to a joint venture with "la Caixa", Fortis is one of the largest life insurers.

And in the Benelux, where its companies include AG 1824 and ASLK-CGER in Belgium and AMEV and VSB in the Netherlands, Fortis is one of the leading providers of financial services. All these examples underline that Fortis has tremendous potential. Because the strength of the whole is greater than the sum of the parts.

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INSURANCE·BANKING·INVESTMENTS

Serfin seeks capital injection for bank

By Leslie Crawford
in Mexico City

Grupo Serfin, Mexico's third-largest financial group, is understood to be looking for a foreign partner to help recapitalise its troubled bank.

Serfin is hoping to raise $500m by the middle of the year to strengthen the bank's capital and reserves, and to take advantage of a relief scheme that allows banks to sell their bad loans to the government if shareholders inject fresh capital into the bank. The ratio set by bank regulators is two pesos of bad loans for every peso of extra capital.

Last year, as bad debts mounted with Mexico's deepening recession, Serfin off-loaded 4.34bn pesos ($575m) of non-performing loans on to the government, and coaxed 2.17bn pesos from reluctant shareholders.

Serfin executives say the bank needs to shed another 8bn pesos of bad loans to clean up its balance sheet. The bank posted heavy losses in the second half of 1995 and managed only a 22m peso profit for the whole of the year. It also has the lowest capitalisation ratio of Mexico's leading banks.

"Serfin's interest margins are too small to generate significant [bad debt] provisions," says Mr Felix Boni at James Capel, the US investment bank. Unlike Banamex and Bancomer, its two larger rivals, Serfin lacks a large depositor base with which to finance its operations. Its dependence on money market funds made it particularly vulnerable to the wild fluctuations in interest rates last year.

Mr David Royo, Serfin deputy director of financial planning, says the bank is seeking to raise between $100m and $150m from its controlling shareholders, which include Grupo Vitro, the glass manufacturer, and the wealthy Sada family of Monterrey.

Another $300m of fresh capital is expected to come from asset sales, including Seguros Serfin, the group's insurance company.

That still leaves Serfin $150m short of its $500m capital target. Mr Royo says: "If we are able to cut costs and increase our depositor base, then perhaps the bank will be in a stronger position to raise capital in the international markets later this year."

Mr Royo says Serfin is "open to the option of bringing a foreign partner into the group", although there were no negotiations with foreign banks.

Bank analysts, however, believe the financial constraints of Serfin's existing shareholders will eventually force the bank to seek a foreign partner – a strategy increasingly pursued by Mexico's troubled banks. Bancomer, the country's second-largest bank, recently clinched an alliance with Canada's Bank of Montreal. Weaker banks, such as Inverlat and Probursa, have been taken over wholesale by foreigners.

Motorola surprises with first-quarter improvement

By Louise Kehoe

Motorola, the US semiconductor and electronics equipment manufacturer, has reported an unexpected modest gain in first-quarter earnings, rebounding from a weak performance at the end of last year.

It posted first-quarter sales of $7bn, up 16 per cent from $6bn in the same period a year ago.

Earnings for the period rose about 3 per cent to $384m, or 63 cents a share, from $372m, or 61 cents, in the first quarter of 1995.

Wall Street analysts had been predicting an earnings decline to about 57 cents a share, and in early trading yesterday Motorola's shares jumped $3¼ to $55¼.

However, the company said first-quarter earnings would have been flat, were it not for a lower corporate tax rate. It warned that "difficult earnings comparisons" may be ahead.

Mr Gary Tooker, vice-chairman and chief executive, cited mixed economic conditions, price pressures in the cellular telephone market and weakening demand for semiconductor products.

Cost-cutting also contributed to improved earnings. Lower gross margins in the company's main businesses were largely offset by lower expenses, the company said.

First-quarter semiconductor sales rose 14 per cent to $2.1bn, but new orders declined 5 per cent, with orders from the personal computer industry "down significantly", the company said.

Motorola's General Systems Products group, which includes the company's world-leading cellular telephone business, reported a 16 per cent increase in sales to $2.7bn. Orders also rose.

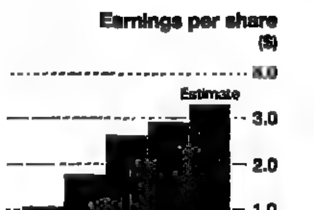
US cellular telephone sales had declined in the fourth quarter of 1995, and analysts said the increase in sales and orders was encouraging.

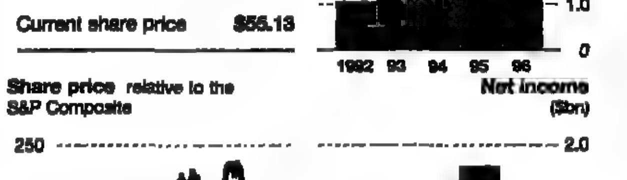
General market conditions were mixed, the company said. "Robust economic growth continues in Asia, especially in China," Mr Tooker said.

"Weakness in Europe is continuing, while the US is growing modestly. Latin America continues to experience near-term volatility but the long-term trend is favourable."

COMPANY PROFILE:
Motorola

Market capitalisation	$31.06bn
Main listing	New York
Historic P/E	17.83
Gross yield	0.77%
Earnings per share	$2.93
Current share price	$55.13





Source: FT Extel, Datastream, Standard & Poor's

Moody's upbeat on US banks after series of mergers

By Richard Waters
in New York

The recent spate of bank mergers in the US has created a group of banks with the scale and breadth of business to boost their financial strength still further, according to a report by Moody's Investors Service, the US ratings agency.

The result is likely to be even stronger credit ratings for the country's largest banks, including Chase Manhattan, Citicorp and BankAmerica, the agency said.

By contrast, banks like J. P. Morgan and Bankers Trust, whose activities are concentrated in the wholesale markets, face growing competition and price pressure which could weaken their ratings over the longer term, it added.

Moody's confident predictions for the biggest US banks come after a recent series of upgrades, which have seen the institutions recover ratings not seen since before the credit crisis of the early 1990s.

Chase, Citicorp, BankAmerica and Wells Fargo have all been upgraded by the ratings agency in recent months, and each now has a double-A rating at the bank subsidiary level and an A1 rating at the holding company level.

While credit concerns over US banks have largely evaporated in recent years, there has been increased attention to the high levels of credit card and other types of debt taken on by US consumers, as well as a rise in loan delinquencies.

However, that has failed to disturb the financial markets' general confidence in bank credit quality.

"Delinquency rates and charge-off ratios are nothing – it's frankly not something we're concerned about," said Mr Bill Key, a fixed income analyst at UBS in New York.

He said recent large share buy-back programmes announced by a number of banks would not weaken their balance sheets either, since the banks were likely to generate sufficient profits in the coming months to fund the buy-backs without dipping into their capital.

Mr Michael Foley, a Moody's vice-president, said their new size made the biggest banks better able to invest in the latest technology needed to support a network which was less dependent on traditional branches.

These banks were finding new ways to fight back against the non-bank finance and credit card companies that in recent years have encroached on their business, he said.

Netscape and GE unit in Internet venture

By Louise Kehoe
in San Francisco

Netscape Communications, the leading Internet software group, and General Electric's Information Services division have formed a joint venture company to develop and market software to make it easier for companies to do business over the Internet.

The partners will each hold a 50 per cent interest in the venture, called Actra Business Systems. It will focus on developing Internet software for electronic commerce by combining Netscape's popular browser interface and server technology with GEIS's technology for Electronic Document Interchange (EDI) – the use of computer networks to place purchase orders and sell goods and services.

GEIS is a leader in EDI services, with about 40,000 customers. Its services are based on proprietary technology and private networks. The group also recently unveiled Internet services using a proprietary encryption technique to ensure security.

The joint venture plans to develop a business document gateway, to enable the exchange of electronic data between businesses and their trading partners, as well as server software to streamline sourcing, ordering, purchasing and payments.

Actra will target small and medium-sized businesses that do not make use of proprietary EDI services. Some 100,000 companies worldwide currently use EDI services. This number represents only about 5 per cent of businesses that could benefit from the technology, according to Forrester Research, a US market research group.

"By working with GE on this joint venture we hope to extend the Internet's benefits to business-to-business commerce," said Mr Jim Barksdale, president and chief executive of Netscape.

The venture's products will be distributed by its parent companies, as well as through electronic commerce service providers.

NEWS DIGEST

AMD slides into red at operating level

Advanced Micro Devices reported a 70 per cent drop in first-quarter earnings as the Silicon Valley chipmaker failed to keep pace with rapid advances in microprocessor technology. AMD had warned of lower profits, but the results were well below Wall Street expectations. First-quarter sales were $544m, down from $627m in the same period last year.

The company reported an operating loss of $22m, against an operating profit of $122m in the first quarter of 1995. Net income for the quarter was $25m, or 18 cents a share, including an $8.7m charge related to the recently completed acquisition of NexGen, a microprocessor design company, and a pre-tax gain of $24.7m from the sale of securities. In the same period last year AMD recorded net income of $84m, or 63 cents.

AMD "continued to feel the effects of the lack of a fifth-generation microprocessor product" to compete with Pentium chips from Intel, the world leader in microprocessor chips used in personal computers, said Mr W. J. Sanders III, AMD chairman and chief executive. AMD began shipments of Pentium-class chips at the end of the first quarter. It plans to produce more than 3m during the rest of the year, and more than 5m over the next 12 months, Mr Sanders said.

Even as AMD begins to catch up with Intel, however, the market for chips used in personal computers is slowing. "The current industry-wide downturn . . . makes projections about future prospects problematic," Mr Sanders said.

Louise Kehoe, San Francisco

Toronto Dominion buys broker

Toronto Dominion Bank, Canada's fifth largest, plans to form one of North America's largest discount brokerages by taking over the US broker Waterhouse Investment Services for US$525m in cash and stock. The bank's Green Line Investor Services is the leading discount broker in Canada. The two operations will be merged but each will retain its name.

Mr Lawrence Waterhouse, founder of Waterhouse, will remain chairman of the US operation, which has 1,300 associates serving more than 500,000 accounts through 79 branch offices in 37 states. Toronto Dominion, which has US$78bn in assets, led the way in discount brokerage in Canada more than a decade ago and now claims a 70 per cent market share.

"By joining with a big US firm, our Canadian customers will tap a broader range of products," said Mr Keith Gray, Green Line executive vice-president.

TD will pay US$38 in common shares or cash for each Waterhouse share, while ensuring that 65 per cent of the total price is paid in stock. The deal requires regulatory approval in Canada and the US and is due for completion by August 31. TD plans to list its shares on the New York Stock Exchange.

Robert Gibbens, Montreal

KPMG's US chief goes global

Mr Jon Madonna, US chairman and chief executive of KPMG, the accounting and consulting firm, is to step down in October to concentrate on his role as chairman and chief executive of the KPMG global organisation. Mr Madonna was elected to the global chairmanship in October 1995, having been chairman of the US firm since 1990. He said that leading the firm at a global level was now a full-time job. There will be an election for the US chairmanship.

In the US, Mr Madonna is credited with re-focusing the firm on consulting and advisory work rather than purely traditional accounting services. As a result, KPMG reported a 10 per cent increase in revenues following the reorganisation in 1993. Mr Madonna said he hoped to bring the same success to the global firm.

KPMG, like most of the other Big Six accountancy firms, is made up of many national firms linked by an umbrella organisation. In recent years these organisations have become increasingly important as clients seek cross-border services.

Jim Kelly, Accountancy Correspondent

Six bids for Mexico gas permit

Bidding for Mexico's first permit to distribute natural gas has attracted six groups. Distribution and transportation of natural gas was opened to companies other than state oil monopoly Petróleos Mexicanos (Pemex) last year. Subsidiaries of US company Tenneco and Spanish oil group Repsol are among those bidding for the distribution permit for Mexicali, a mid-sized town near the US border. San Diego Gas and Electric, PNM Energy of New Mexico, and Gaz de France all registered with Mexican partners, while Multigas, a Mexican company, registered individually.

"This process is testing all the regulations and changes of the last year," said Dr Héctor Olea, president of the Energy Regulatory Commission, the body which has overseen the liberalisation of the sector. He said the Mexicali licence was chosen to open the sector "because it is small and very manageable". Bidding for the Mexicali project will close on June 3, with the permit awarded on August 12. Dr Olea said he expected three or four other gas licences to be awarded this year.

Daniel Dombey, Mexico City

Falconbridge bows out

Falconbridge, the Canadian mining group, has bowed out of the bidding for the Voisey's Bay nickel property in Labrador, but is entitled to a C$100m (US$73.7m) break-up fee. Falconbridge said it was not ready to top Inco's C$4.3bn bid, and it had not signed any deal with Inco to buy a minority stake in the world's largest known nickel-copper-cobalt property. It will invest the C$100m, less the cost of its bid, elsewhere. Inco is buying the 75 per cent of Voisey's Bay it does not already own by acquiring Diamond Fields Resources. DFR is holding a special shareholders' meeting in Vancouver on May 22 to approve the offer.

Robert Gibbens

Telex-Chile lifts Colomsat stake

Telex-Chile is to buy a further 40 per cent of Colombian telecommunications company Colomsat for $4m, and plans to list it on the Bogota stock exchange. The deal, which leaves Telex-Chile with 89.68 per cent of Colomsat, also opens the way for the long-distance carrier to take further control.

Telex-Chile subsidiary Texcom will also sign a future purchase agreement for Colomsat stock. Under the agreement, Texcom may buy within the next year a further 7.82 per cent of Colomsat's current shares outstanding at $2.76m, or about three times their book value on December 31, said Telex-Chile.

Colomsat has become Colombia's main private competitor to the long-distance service monopoly, said Telex-Chile, whose own long-distance unit, Chilesat, is one of five main long-distance carriers in Chile.

Reuter, Santiago

FTC rejects plan by BAT to sell six discount brands

By Richard Tomkins
in New York

The US competition authorities dealt a blow to BAT Industries of the UK when they rejected the company's plan to sell six discount cigarette brands to Lorillard Tobacco, one of the smaller US cigarette manufacturers.

The Federal Trade Commission said it was not convinced that Lorillard would compete aggressively in the discount cigarette market.

It also cited concerns that Lorillard had declined to buy the factory that makes the six brands, resulting in its probable closure.

BAT acquired the brands when it bought American Tobacco from American Brands for $1bn at the end of 1994. It merged the company with its Brown & Williamson Tobacco subsidiary.

The FTC originally sought to block the takeover on anti-trust grounds, but withdrew its opposition in exchange for undertakings that BAT would divest some of American Tobacco's minor brands and seek a buyer for American Tobacco's main factory in Reidsville, North Carolina.

Last November, BAT said that Lorillard had agreed to buy the US domestic rights to six discount brands: Montclair, Malibu, Riviera, Crows, Bull Durham, Crows and Special Tens. But the factory would close, BAT said, since Lorillard had decided not to buy it.

The FTC said yesterday it was blocking the deal because Lorillard's main product was a full-price menthol brand – Newport – and it "has not demonstrated that it has been involved in the promotional activity necessary to maintain and grow a discount brand".

It added that Lorillard's refusal to buy the factory would "eliminate the possibility of removing from BAT's control the excess capacity that the plant represents and placing it in the hands of an aggressive competitor that could use the capacity to increase production".

BAT said: "It's a little odd to think you would buy a brand and not compete with it. But we are still very pleased with the American Tobacco acquisition, and now we have to get on a find someone else who will satisfy the FTC."

In theory, BAT could be forced to reverse the acquisition if it is unable to find a suitable buyer.

BAT said the most likely buyer would be a US company already in the cigarette business. However, it said Liggett, the other small US tobacco company, would probably not be acceptable to the FTC because Mr Bennett LeBow, its owner, is currently trying to acquire control of RJR Nabisco, the second-biggest US tobacco company.

Forecasts for Smurfit hit by paper fears

By Patrick Harverson

The problems of the worldwide paper industry were underlined yesterday when City analysts sharply downgraded their profits forecasts for Jefferson Smurfit after the Irish group warned the downturn in the market could extend into 1997 because of poor demand, volatile prices and overcapacity.

Reporting pre-tax profits of I£420m ($658m) up from I£119m before exceptional items in 1994, Smurfit said the deterioration in trading conditions at the end of 1995 had continued this year with demand for corrugated containers weakening amid continued manufacturing overcapacity.

It said demand would not catch up with supply and prices would not improve until world economic growth strengthened.

The warning prompted analysts to slash their profits forecasts for the next two years. UBS, broker to Smurfit, cut its forecast for 1996 profits from I£365m to I£260m and for 1997 from I£340m to I£265m.

The gloomy outlook contrasted with the record annual results Smurfit unveiled yesterday. The increase in profits and turnover, which rose from I£1.71bn to I£3.03bn, was put down to the sharp rise in paper prices and demand in the first three quarters of the year, and to the contributions from acquisitions, notably Cellulose du Pin. Bought in 1994 for I£684m, the French container board manufacturer accounted for the bulk of the I£140m in profits and the I£1bn in sales that acquisitions contributed last year.

Smurfit made several overseas acquisitions or foreign investments during the year, including a joint venture in China by its US associate. Mr Dermot Smurfit, joint deputy chairman and son of the founder, said the group would pursue careful expansion in the Far East and would look for acquisition opportunities elsewhere.

Although gearing rose last year to 40 per cent, Mr Smurfit claimed the group still had the capacity to take on another deal comparable to the Cellulose du Pin acquisition. He said Smurfit was a "buyer rather than a builder" of new capacity.

The group's continental European operations made profits of I£195.4m, up from I£34.6m.

Lex, Page 10

A background of higher demand helps justify aggressive rises

Granada raises hotel prices 15%

By Raymond Snoddy and David Blackwell

Granada Group has pushed through average price increases of 15 per cent a room in the 19 London hotels acquired from Forte earlier this year.

The rises have been phased in over the past few months and in several hotels the increase has been as high as 20 per cent.

News of the aggressive Granada move against a background of rising demand and higher occupancy rates in the London hotel market came as the company gave a positive trading update to City analysts. "They could have talked down expectations – but if anything they stoked the fires," said one analyst.

However, the group also said it was in no hurry to dispose of its upmarket hotels to cut debt.

Mr Charles Allen, Granada chief executive, said he would be producing a detailed profit improvement-cost analysis for each hotel. The group had followed a similar policy with the White Hart chain, sold to Regal Hotels last week.

He also confirmed that Sir Rocco Forte, the former chairman of the Forte Group, was still formally interested in bidding for some of the hotels the company used to own.

Meanwhile, Granada was experiencing "good performances" from all divisions. Mr Allen was "comfortable" with forecasts at the time of the hostile £3.9bn takeover that in the year to September 1997 Granada could realise a profit improvement in the former Forte businesses of £100m.

The price rises in the London hotels are part of general rises introduced by Granada across the former Forte businesses. Increases of £5 and £10 are being introduced to Posthouse Hotels where rooms currently range from £59 to £79 a night.

Travelodge prices have already been increased from £34 to £36.50 with no effect on bookings and the aim is to move to £39 after improvements have been introduced, including the installation of satellite television.

Granada is also involved in discussions with the Inland Revenue to see whether the company can spread capital gains tax from the planned sale of Exclusive and Méridien hotels across the whole £3.9bn acquisition. Tax payments of more than £20m are expected on hotels in France and Spain.

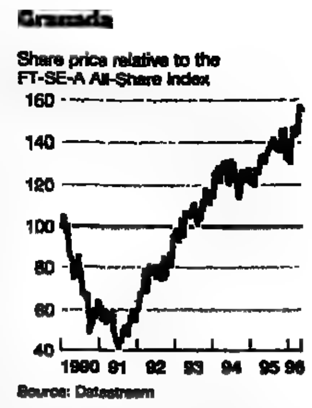
Trevor Humphries

Charles Allen: preparing detailed profit/cost improvement analyses for each hotel

LEX COMMENT

Granada

Given the possible pitfalls of bedding down the £3.9bn acquisition of Forte, no news from Granada's trading statement was the best news investors could have hoped for. The performance of the group's TV and catering interests has confounded concerns that these divisions would suffer while the management's attention was tied up elsewhere. Meanwhile, Granada is delivering on its promise to boost Forte's profitability. The raft of UK hotel price rises being implemented amount to more than £30m of annualised operating profit. And given an increasingly favourable hotel market, occupancy should not suffer. Having got the consolidation of Forte under way, Granada's near-term share performance will be driven by disposals. The management has made strenuous efforts to defer analysts' expectations of quick sales, and given Granada's strong cash flow its current £3.5bn of net debt is not particularly worrying. Nonetheless, the pitiful return on assets of Forte's trophy hotels means their sale represents an easy means of boosting earnings.



The company looks to have found a way of minimising capital gains tax liabilities even if it sells hotels in a piecemeal fashion. Given the current strength of the London hotel market, it should be able to make a few attractively priced disposals in the foreseeable future.

Even if there were no disposals, profits of £640m in the year to September 1997 would leave the shares on a small premium to the market average, after taking out the current value of the BSkyB stake. With the prospect of earnings enhancing disposals, this still looks cheap.

United Airlines sues GEC-Marconi

By Bernard Gray

GEC-Marconi is being sued by United Airlines because the $100m in-flight entertainment system it has provided for the new Boeing 777 airliner does not meet the agreed specification. United is claiming damages because the system supplied by GEC is less advanced than claimed. GEC said yesterday that it would defend the Illinois lawsuit and wanted United to pay for the equipment it has already supplied.

United has also cancelled a contract to upgrade its existing fleet of Boeing 747 and 767 aircraft with the Marconi system. The two contracts together are worth $100m, and United may claim additional damages.

The action is embarrassing for GEC, which has been vying for a share in the potentially lucrative, but competitive, in-flight entertainment market. GEC agreed in 1992 to supply United with an advanced interactive entertainment system, allowing passengers to order duty free goods or play arcade-style computer games as well as watch films on the 777.

Problems meant that the system was not ready for the aircraft's launch last June. United was supplied with a less sophisticated version without the interactive facilities. However some of United's pre-launch publicity put emphasis on the interactive system, embarrassing the airline.

GEC said it was surprised as it had been holding meetings with United to resolve the problems.

Departing Rank chief defends sale

Mr Michael Gifford yesterday bowed out as chief executive of Rank Organisation, the leisure group, with a spirited defence of last year's sale of 40 per cent of its Rank Xerox stake for £620m, writes David Blackwell.

In reply to a question from a private shareholder, Mr Gifford, chief executive for the past 12 years, told the annual meeting that the group had seized an opportune moment to reduce the stake in the office equipment joint venture and reinvest the proceeds. The full effect had not been seen yet – "but you will see it going forward". Sir Denys Henderson, chairman, said Mr Gifford had refocused Rank into a leisure and entertainment company with market leading positions in cinema, bingo and holidays.

Mr Andrew Teare, formerly head of English China Clays, took over as chief executive at the end of the meeting.

Standard Life loses chief

By Norma Cohen

Mr Dick Barfield, chief investment manager at Standard Life and one of Britain's most prominent shareholder activists, is to resign his post at the end of June to pursue other interests.

"It's very much a personal decision to go and do something for myself," said Mr Barfield, who has been with Standard for 26 years, the past eight as its investment director. "It's really a quality of life decision." He will receive no compensation.

Standard has £44bn in assets under management and owns about 2.2 per cent of the UK stock market.

The company, Europe's largest mutual insurer, has benefited from the high profile Mr Barfield gave it through his role as a shareholder activist. It recently led an unsuccessful revolt among shareholders in Farnell Electronics, the UK engineering group, over its plans to acquire US-based Premier Industrial Corporation.

Mr Barfield will be replaced by Mr John Thomson, involved in developing Standard's international expansion strategy.

Rentokil expected to increase BET bid

By Geoff Dyer

Rentokil, the business services group, is expected this morning to increase its hostile £1.9bn ($2.88bn) bid for rival BET by at least 10p per share.

Institutional investors in BET, some of whom have met both the groups over the last few days, predicted last night that any increase in the cash and paper offer would be in the range of 10p-25p.

Rentokil said last night that a final decision on the timing or size of an increased offer had yet to be made and it has until tomorrow to decide. However sources close to the group suggested that it was likely to move today.

After shares in Rentokil fell 5p to 363p yesterday, the bid value dropped to 202p, compared with BET's closing price of 207½p, down ½p. In an attempt to put pressure on Rentokil in the run up to the deadline, one of the largest shareholders in BET called for a generous increase in the offer. "Our valuations say that Rentokil should be paying at least 225p per share, with some calculations saying BET is worth 250p," the institution said.

Other shareholders said that a smaller increase would suffice. "It looks like they will put it up a little bit, around 10p say, and comfortably win the day," said one.

Hammerson pays £81m for Berlin shopping centre

By Simon London, Property Correspondent

Hammerson, the property investment and development company, has added to its portfolio of continental European assets with the £81m ($123m) acquisition of a Berlin shopping centre.

The deal follows a spate of acquisitions by the company in France, but is Hammerson's first in the German market since 1990.

The company is paying DM183.4m for a 93 per cent stake in the Märkisches Zentrum shopping centre in a northern suburb of Berlin.

The 1960s centre, comprising 105 shops, is being acquired from a partnership of private German investors. About 10 of the investors, accounting for 7 per cent of the shares, will retain their holdings.

Mr Ron Spinney, chief executive, said that the centre provided Hammerson with secure income and opportunities to improve its performance through capital investment.

Hammerson's recent strategy has concentrated on increasing its weighting towards retail property and continental European markets. In March it paid £49m for a large office building in central Paris.

The Märkisches Zentrum centre generates gross rental income of DM16.8m, giving Hammerson an initial yield after costs of about 7 per cent.

Yields in the German property market are among the lowest in Europe, partly reflecting the strong appetite of domestic investors for property investments.

However, Hammerson's cost of D-Mark funds to finance the acquisition will also be relatively low, in line with German interest rates. Mr Spinney said that the average cost of debt, including loans which were being assumed, would be less than 5 per cent.

Hammerson already owns three retail properties in Germany, accounting for 7 per cent of gross assets. In 1995 the value of its German portfolio fell 7.7 per cent.

Positive Aim outweighs negative

Christopher Price on the progress of the fledgling companies market

The Alternative Investment Market, which has had a remarkably trouble-free existence since launching last June, has had some anxious moments recently.

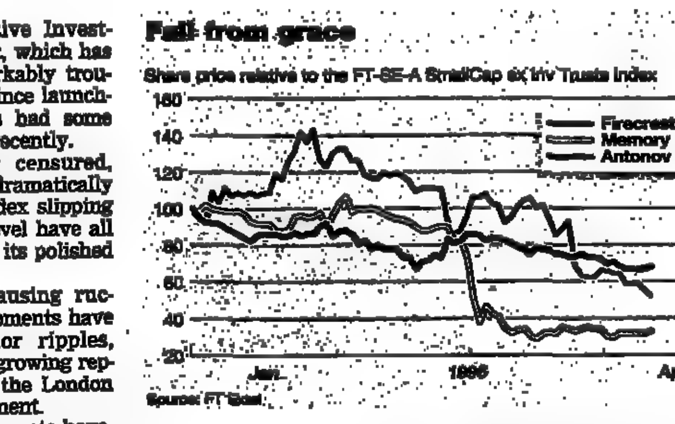
Directors being censured, star stocks falling dramatically and the market index slipping below its launch level have all emerged to tarnish its polished image.

Yet far from causing ructions, these developments have caused only minor ripples, underlining Aim's growing reputation as part of the London financial establishment.

Negative developments have, in any case, been offset by more positive aspects, such as the number of new issues, an increase in City firms deciding to make markets in Aim stocks and record trading last month.

Ironically, it was one of the darlings of the junior market – Firecrest, the media services group – which prompted the Stock Exchange to make its *first public censure* over the granting of share options.

The move will have been a worrying one for the authorities. Prior to Aim's establishment, critics, including many institutional investors, argued that the less onerous joining regulations would attract inexperienced management and unsuitable companies. The exchange, however, said the new market needed lighter entry requirements – such as a shorter *trading* record, a lower percentage of shares in public hands and no sponsor – in order to attract young and dynamic companies.



Firecrest had also been one of a handful of last year's star performers on Aim to see a sharp share price fall this year. Its shares have retreated from more than 200p at the end of the year to 70p yesterday – although they are still nearly double their July placing price.

Shares in Memory Corporation, which repairs microchips, plunged after the company reported disappointing results last month. It came to Aim via a placing at 420p, and its shares subsequently reached 505p: they closed at 150p yesterday. Shares in Antonov, the specialist gearbox group, have halved in the past six months.

These three companies were among the heaviest traded of Aim stocks and their fall is largely behind the underperformance of the Aim index, which missed out on Aim's buoyant first six months as it was only launched at the beginning of this year. From a base of 1,000, it closed the first quarter at 988.9.

Far from being concerned, dealers dismiss the declines as a reflection of the vagaries of a smaller companies' market, where liquidity – the percentage of shares free to be traded – is often difficult to maintain. The result is more extreme movements in price than seen in the main market. Firecrest, Memory Corporation and Antonov all have less than 40 per cent of their shares in public hands.

To underline the argument, they point to the likes of Celtic Football Club, up 77 per cent over the first quarter, Pan Andean Resources, quadrupled at 75p, and Financial Publications, trebled at 245p, as testimony to the market's other extreme.

The lack of liquidity, which has frustrated previous attempts to establish a small companies' market, has also discouraged City firms from making markets. However, Aim is gradually winning more converts among both institutional investors and market-makers.

Merrill Lynch recently became the first big stockbroker to commit itself to Aim, making markets in 25 of the 130 or so stocks. Other big houses have also begun dabbling, particularly with an eye on the end of the Unlisted Securities Market on December 31, with many of the 300 or so stocks expected to join Aim.

Turnover last month reached £133.4m, Aim's highest in a single month, with the number of bargains also at an all-time high of 15,547. Meanwhile, the amount of money raised since the market began passed £200m during March, and institutional investors played an increasing part.

Spurred on by a combination of lower admission costs and easier joining regulations, entrants to Aim were behind an increase in the overall number of flotations during the first quarter. Of the 46 new issues in the period, 30 were on Aim, compared with 22 last year.

Taken together, the positive news has outweighed the recent disappointments and maintained Aim's momentum. However, they also demonstrate that Aim is not immune from the illiquidity and the riskiness that tend to plague small company markets.

Yule Catto to seek more purchases

By Motoko Rich

Yule Catto, the chemical and building products group, yesterday said it was back on the acquisition trail as it unveiled pre-tax profits up 16 per cent for last year.

The group, which had cut net borrowings from £5.4m to £2.7m ($4m) – representing gearing of 3.5 per cent – said it was "looking for businesses which are complementary either in product, market sector or management terms".

Its last substantial acquisition was in 1993 when it paid £18.2m for a 50 per cent stake in Synthomer Chemie, a German synthetic rubber latex company.

Last year's rise in the pretax surplus from £28.5m to £33.1m contrasted with profit downturns at other chemical groups including Albright & Wilson, Holliday Chemicals and Laporte. Turnover increased 18 per cent to £390.8m. Operating margins were squeezed slightly to 8.8 per cent (9 per cent).

Mr Alex Walker, chief executive, said raw material prices had risen rapidly in the first half only to collapse dramatically in the third quarter.

He said the group managed the first-half increases by raising selling prices and controlling costs. Profit growth in the second half was constrained by weakening demand as a result of customer destocking.

Raw material prices had stabilised since the year end. "Raw materials seem to be moving into calmer waters at the moment," said Mr Walker.

Profits in the speciality chemicals division rose 10 per cent to £29.1m, while profits in building products jumped 20 per cent to £7.6m.

Capital expenditure was £12.1m (£9.5m). Mr Walker said the group had expanded plants in Malaysia, South Africa and Germany.

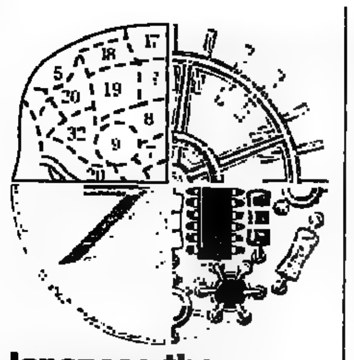
Earnings per share expanded 17 per cent to 20.3p. The group recommended a final dividend of 4.8p (4.2p), making a total of 8p (7p).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
AAF Inds	Yr to Dec 31	23.5	(41.2)	0.953L♠	(2.9♥)	4.34L	(12.25)	nil	-	nil	nil	nil
Alpha Airports	Yr to Jan 31	[illegible]	(476.5)	20.6	(21.4)	9.24†	(10.03)	3.25	-	3	5	4.6
Caledonian Trust Φ	6 mths to Dec 31	1.55□	(1.55□)	0.347	(0.306)	3.3	(3)	-	-	-	-	-
Delaney	Yr to Dec 31	18.91	(18.23)	0.51L	(0.74)	0.5L	(0.6)	nil	-	0.24	nil	[illegible]
Headlam	Yr to Dec 31	146.9	(134.3)	7.72♥	(5.82)	12.8†	(10.1)	3.6	July 1	3	4.8	4
Intermediate Cap	Yr to Jan 31	-	(-)	[illegible]	(17.9)	27.6	(27.2)	9.1	May 24	7.75	13.4	11.5
Moss Bros	Yr to Jan 27	87.5	(71.1)	11.3	(7.4)	42.53	(27.83)	13	May 31	9	18	12
Murray VCT	45 weeks to Feb 29	0.525■	(-)	0.381	(-)	1.05	(-)	0.78	June 3	-	-	-
Reece	Yr to Dec 31	16.9	(14.5)	0.015	(0.207)	0.01	(0.16)	nil	-	nil	-	nil
Ruberoid	Yr to Dec 31	239.8	(240.1)	8	(8.41)	10.4	(11.9)	4.2	May 31	4.2	6.1	6
Sectry Farming	Yr to Dec 31	7.32	(7)	1.5♠	(0.977)	22.8	(15.6)	5.1	June 3	3.4	5.1	3.4
Smurfit (J) ♣	Yr to Dec 31	3,032	(1,710)	[illegible]	(317.1♥)	28	(29.6)	2.6	June 28	1.965*	4	[illegible]
Yule Catto	Yr to Dec 31	390.8	(330.8)	33.1†	(28.5)	20.3	(17.3)	4.8	July 5	4.2	8	7
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
New City & Comm	Yr to Jan 31	131.2	(105)	0.668	(0.559)	5.26	(4.41)	3	June 4	2.85	4.3	4.15

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. □Rental income. ■Income. ♣Irish currency. *Equivalent after allowing for scrip issue.

Worth Watching · Vanessa Houlder



Japanese theory to brain mystery

One of the mysteries about degenerative brain diseases, such as BSE in cattle and Creutzfeldt-Jakob in people, may have been solved by a Japanese research team, Clive Cookson writes.

Such diseases are caused by infectious protein particles called prions, which convert a harmless brain protein into a lethal form, simply by changing shape. But no one knows the normal role of this prion protein.

Shigeru Katamine and colleagues at Nagasaki University medical school report in Nature today that genetically engineered mice, which lack the gene for prion protein, behave normally until they are about 70 weeks old. Then they develop ataxia (impaired motor co-ordination) and become increasingly unsteady on their feet.

Post-mortem examinations show an extensive loss of so-called "Purkinje neurons" – brain cells required for motor co-ordination – in the mice. The scientists conclude that normal prion protein plays a role in the long-term survival of these cells.

Curiously, two other research groups have produced mice lacking the same prion protein gene, which show no symptoms of ataxia.

The Japanese put forward several possible reasons for the apparent discrepancy, including differences in genetics and breeding conditions between the laboratory strains used.

Shigeru Katamine: Japan, tel 958 497058, fax 958 497060.

2D converted into 3D

Xenotech, a Perth-based developer of a three-dimensional television system, has developed a process for converting two-dimensional film and video into a form that can be viewed in 3D.

The viewer can see the converted image in 3D on a standard television using special glasses: alternatively, it can be seen on a dedicated Xenotech screen without special glasses.

The main weak spot of the system – which uses two projected images, one going to the viewer's left eye and one going to the right eye – is that only one person can watch the screen at a time. Its earliest applications are likely to be in video arcade games.

The Xenotech system was licensed to Samsung of South Korea in 1994.

Xenotech: Australia, tel 94463366; fax 94463340.

Laminated glass shuts out noise

The noise levels in buildings could be cut down significantly by using a newly developed laminated glass, according to a Derby-based specialist.

The Whisperply system developed by Plyglass is made of two sheets of glass separated by a layer of transparent resin. Plyglass says that the three-layered glass is more effective than traditional double glazing in shutting out traffic noise.

In very noisy environments, such as airports and factories, it can be used in double glazing units filled with an inert gas to cut down noise levels even further.

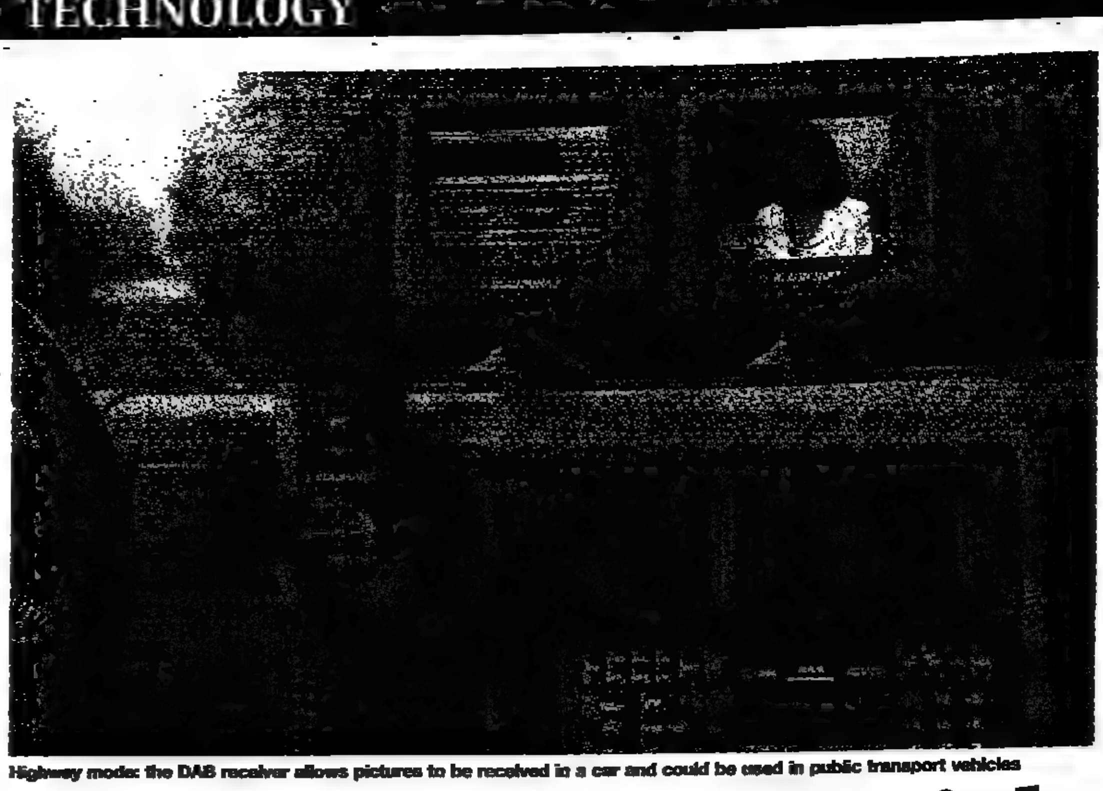
Plyglass: UK, tel (0)1773 520000; fax (0)1773 520052.

The wind blown out of camping

Trying to heat food or water in a gale can dampen the enthusiasm of the most ardent camper. Camping Gaz has tackled the problem by launching a flameless portable stove that can safely cope with wind speeds of up to 10 metres per second and temperatures of minus 8°C.

The Trek 270 stove, which costs £49.95, generates heat from a reaction between gas and a catalytically-coated material. The heat is radiated by the burner through a vitro ceramic glass cover directly into the base of a pan, similar to the workings of a halogen hob.

Camping Gaz: UK, tel (0)1753 691707; fax (0)1753 691671.



Highway mode: the DAB receiver allows pictures to be received in a car and could be used in public transport vehicles

The wireless with moving pictures

Digital multimedia broadcasting can open a new era of sound and image transmission, writes George Cole

Television used to be described as radio with pictures. But a new digital broadcasting system could introduce radio receivers that can display moving video pictures. It may also bring a new way of delivering data to users of mobile computers and other portable digital devices.

The digital audio broadcasting (DAB) system is a European standard for a digital radio system that could one day replace existing analogue AM and FM services.

Analogue services transmit sound in the form of a wave, but DAB transmits audio in the form of computer code. As a result, DAB offers interference-free sound whose quality is close to that offered by the compact disc.

A number of countries are running DAB trials or services, including France, Germany, Norway, Switzerland, Canada, South Africa and the UK. Electronics companies such as Philips, Sony, Panasonic, Grundig and Pioneer are developing DAB receivers, which are expected to reach the consumer market within the next 18 months.

So far, DAB has been promoted as a radio system. But earlier this year, the German electronics company, Robert Bosch, and the national telephone company, Deutsche Telekom, demonstrated that it could also be used for transmitting full-motion video pictures to moving vehicles.

The modified DAB system – dubbed digital multimedia broadcasting or DMB – can also transmit sound, data, text, graphics or still video pictures. DMB uses the flexibility offered by the DAB standard and digital technology. DAB allows up to six stereo audio channels to be combined or multiplexed into a single data stream.

Moving video pictures require much more data than sound, so DMB uses all six data channels to transmit a single video programme with sound. A conventional DAB receiver normally processes the six data channels separately, but Bosch has developed a special DAB receiver that can handle all six data channels together. The receiver has the equivalent computing power of several personal computers.

Before transmission, the video is compressed and combined with audio and other data, including an error protection system that corrects transmission errors. The combined video, audio and data package falls within the DAB specification for data transmission.

The picture quality offered by DMB is equivalent to the VHS video format, but Bosch and Deutsche Telekom say this is adequate for small and medium-sized screens. What is more, improved compression systems could bring broadcast-quality video pictures.

In the demonstration hosted by Bosch and Deutsche Telekom, the DMB system was compared with the analogue PAL television format used by most of western Europe. A specially developed DAB receiver was set up in a car, which was driven at high speed. When the PAL pictures were displayed, they suffered from interference, but the DMB images were clear. This is due to the way the analogue and digital pictures are transmitted.

The PAL picture signal is in the form of a wave, and this can be reflected off hills and high buildings, causing effects such as picture roll, loss of colour and ghosting, which forms shadow images.

But DMB uses a system that splits the video signal into hundreds of small data packages which are transmitted separately. The packages are reassembled by the modified DAB receiver. The advantage of this system is that any transmission errors will affect only a small portion of the signal, and this can be patched up.

DMB technology may be elegant, but has it any practical applications? Bosch and Deutsche Telekom think so. "Critics are bound to ask: do people really need full-motion picture reception in a car? Wouldn't it distract the driver?" says Gert Siegle, director of research and advanced development at Bosch.

"No one thinks anyone should watch television while driving, but being able to watch news, information or entertainment programmes while riding on public transport or even in the back seat of a car would be an interesting alternative for passengers."

DMB could also be used for a new generation of car information systems that employ speech or pictures to inform drivers about traffic conditions, detours or parking, says Siegle.

Attention is also turning to using DAB for data transmission services. DAB's relatively fast data rate – around 60 times faster than fax or 40 times faster than the input rate (from a modem) of most personal computers – means that it could be used for delivering large amounts of data to mobile computer users. "Surveys have revealed that highly mobile people are especially interested in having the services they use at home or at the office available while on the road, too," says Siegle. Bosch and Deutsche Telekom suggest computer users could subscribe to a raft of wireless data services delivered by DAB. Siegle thinks pocket-sized DAB data receivers equipped for fax reception may also become available.

DAB is compatible with computer language used on the Internet. This means companies providing information and services on the Internet could also transmit them via DAB. "We could see PC manufacturers introducing computers with built-in DAB cards for receiving data in this way. Data services will be an important part of DAB," says Mike Thorne, radio business manager of NTL, the UK broadcasting and telecommunications company.

If developments such as DMB become available, the idea of watching your radio may not seem so fanciful after all.

Skin cancer chaos

Chaos theory, the study of non-linear systems, has found uses ranging from finance to engine design. Now Russian scientists and their partners in an EU-funded project are hoping that chaos theory can help detect skin cancer.

At present, anyone with suspected skin cancer has to undergo a biopsy. But a team of scientists taking part in the EC's Esprit programme believe they can provide doctors with a detailed picture of hidden tissue structures by shining light at the skin and using their understanding of chaotic systems to analyse the resulting image. The diagnostic technique, called optical tomography, has been developed by scientists at the Solvay Institute in Brussels and the Institute of Applied Physics in Nizhny Novgorod, working in conjunction with the National Hospital in Athens.

It involves shining infra-red light on the suspected cancer and capturing the scattered rays using a highly sensitive interferometer. The resulting data cannot be analysed using classical mathematics, since the light is highly scattered in the tissue. That means that the trajectory of individual photons is chaotic, and so extremely sensitive to infinitesimally small changes in initial conditions.

Instead, the mathematicians have used their expertise in chaos theory to make sense of the available data, which includes the intensity of the dispersed light, the arrival time of the photons and the optical interference patterns they produce.

The resulting algorithms have allowed scientists to visualise accurately very small details in skin to a depth of 0.8mm. "The first experiments are highly encouraging," says Ioannis Antoniou, deputy director of the International Solvay Institutes for Physics and Chemistry.

He believes that a prototype that can detect changes in tissue several millimetres below the skin surface will be produced within three years.

Vanessa Houlder

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COMMODITIES AND AGRICULTURE

Dutch study highlights EU farm policy cost

By Alison Maitland

The Common Agricultural Policy costs the average Dutch family about 7 per cent of their disposable income, according to a report for the Netherlands' Consumer Organisation.

The study is believed to be the first outside Britain to assess the costs of the CAP for the population of an individual member state. Last year the UK's National Consumer Council calculated the CAP was costing the average family nearly £20 a week in taxes and inflated food prices, despite the MacSharry reforms of 1992.

The Dutch report said the CAP cost a family with two children at least Fl 3,200 (US$1,720) in 1993. That took account of the costs to consumers and taxpayers of all farm commodities and included price support and other subsidies. Mr Bart Kuijpers, co-author of the study, said the cost could have fallen since the 1992 reforms, which cut price support while compensating farmers. But no figures were yet available to indicate this.

"We have to wait and see whether the reforms are really effective in reducing the cost, but even 4-5 per cent of disposable income would be a large amount of money," he said.

The study concludes that farm support policies are very costly and largely ineffective in achieving their stated aims, such as enhancing rural living standards and ensuring reasonably-priced food.

It recommends agriculture be treated like any other economic sector and points out its importance decreases with general economic growth. In France, for example, the share of agriculture in total employment fell from 41 per cent in 1901 to 6 per cent in 1990.

Controversially, it argues that "the economic vitality of rural areas does not depend on agricultural production" provided transport and communications are available, as manufacturing and services are shifting to smaller communities.

The report says better alternatives to the CAP are available, such as direct income support for full-time, small-scale farmers. The idea of targeting help at smaller farmers has been revived recently by the European Commission but is strongly opposed by countries like the UK where farms are relatively large.

The Costs for Consumers and Taxpayers of the Common Agricultural Policy of the European Union: the Case of the Netherlands. Erasmus Centre for Economic Integration Studies, Erasmus University, PO Box 1738, 3000 DR Rotterdam. Tel 31 10 408 11 11. Fax 31 10 452 02 04.

Desert sun tips the scales for Negev fish farmer

Mark Dennis relates an unlikely success story set on the Egyptian-Israeli border

Mr Yitzhak Levy is an improbable farmer in what most would consider an impossible place to cultivate his primary crop: fish. The deeply-tanned fish farmer lives in the Negev desert in southern Israel, an area that receives scant annual rainfall and is miles from any body of water.

The arid environment may seem an odd place to breed fish, but not only is Mr Levy's fish-farming technique working and profitable, its proponents say its superintensive method is producing yields far beyond those of similar ponds in more traditional settings.

At the Nizzane Sinai farming settlement on the Egyptian-Israeli border, where Mr Levy and his colleagues live and work, eight green bubbles rise from the dusty land, a distinct fishy smell wafts through the air and the whirring of fans punctuates the surrounding silence. The bubbles house ponds teeming with tens of thousands of tilapia and carp. Made of green plastic sheets and supported by ventilation, the computer-controlled bubble ponds use the desert's one great resource, sunlight, to heat the water inside.

The desert farmers, part of a government-funded programme to develop agriculture in the Negev, claim their intensive techniques have the highest yields in the world for closed warm water ponds – 20kg per cubic metre. Each US$650,000 pool produces eight to ten tonnes of fish annually. A similar sized pool only a few hundred kilometres north in the Galilee region of Israel would produce around four tonnes.

Yitzhak Levy's superintensive farm is not only profitable but is producing yields far beyond those of similar ponds in more traditional settings

The bubble technology is attracting attention as a potential way to help alleviate depletion of global fish stocks and feed rapidly growing populations, especially in the semi-arid states where it is most applicable. The closed ponds, in which water is circulated through filters, use water more efficiently than open ponds, where a constant flow of water is needed.

"The only alternative to this acute problem [of fish stock depletion] is aquaculture," says Mr Dan Mires, head of the fisheries department at the ministry of agriculture. "And with water scarcity, more people need to look at closed water systems."

The water in the Nezzane Sinai farm is pumped from brackish geothermal wells previously considered unusable. The 39° C water is part of an integrated system that first heats greenhouses before going to the pools. It is then circulated through a biofilter. About 10 per cent new water is injected through each circulation, with the waste water going to irrigate crops.

According to Mr Levy, the key component is the bio-filtration system, a natural cleansing system, because the ponds do not have constant replenishment of water. The biofilter allows the ponds to retain the same water by using bacteria to degrade organic material produced by the fish.

The bubbles maintain water temperature between 22° and 27° C, ideal for growing warm water fish such as tilapia, a hardy species originally from Africa. The plastic harnesses the sun's radiation to warm the pools, especially during the winter, when night-time temperatures can dip below freezing. Its green colour filters out rays that create photosynthesis, reducing the amount of algae.

In open ponds, where a tilapia takes about 19 months to grow to full size, fish generally don't grow in the winter because of to the cooler temperatures. In the desert bubble pond, where the farmers can control the climate and grow fish year-round, a tilapia will grow to its full size of 500 grammes in one year.

The entire system is automated, and a computer monitors everything from oxygen and pH levels to temperature and nutrition, adjusting the environment accordingly. Paddle wheels churn in the centre to introduce extra oxygen to the water. Ventilators blow in air to moderate the temperature.

Because the superintensive environment is so delicate, with a shutdown quickly leading to a lot of dead fish, Mr Levy has a back-up generator and a computer in his house in case anything goes wrong. In addition, only inexpensive fish like carp and tilapia are bred while the system is still in its infancy. Once it becomes more foolproof, more expensive species will be introduced.

While the sophisticated system is more expensive than traditional pools, production costs are actually lower overall because of the superintensive breeding, says Ms Collete Tzuria, a Jewish Agency official who oversees the agricultural development of the Negev. Currently the fish is only marketed domestically, but according to Ms Tzuria, the agency plans to replicate the pools throughout the desert and one day export both the fish and the technology.

The bubble pools have received much attention from outside Israel, but Mr Mires of the ministry of agriculture is cautious about the immediate application of the technology to other countries. "It is not enough to have technology . . . in any intensive system you must have highly educated people running it," he says, noting that the procedure, which he hopes to see used elsewhere in the Middle East, will have to be introduced on a step-by-step basis.

Mr Levy, who three years ago knew nothing about fish, is more optimistic. Standing outside one of his bubble ponds, he looks westward to the Egyptian border, a few hundred metres away. "The technique is simple," he says, squinting into the setting sun. "And what's the difference between the desert there and the desert here?"

Fund manager predicts price rises for gold and base metals

By Kenneth Gooding, Mining Correspondent

Source: Datastream; MAM; Economist Base Metal Index

Base metals and gold producers can look forward to higher prices in the next few years, according to executives at Mercury Asset Management, which manages £1.6bn-worth of investors' money in specialist mining funds and trusts.

Falls this year in the prices of metals traded on the London Metal Exchange – aluminium, copper, lead, nickel, tin and zinc – represented "just a mid-bull market wobble," says Mr Graham Birch, manager of the Mercury World Mining Trust.

Leading economic indicators suggest that global economic activity is picking up again, always a good sign for base metals demand, he says. Meanwhile, the running down of excess stocks, which accounted for some of the apparent fall in demand in the past six months, should be completed by the second quarter of this year.

Mr Birch points out that, in order to return to their previous peak in nominal terms, base metals prices would have to rise by about 47 per cent from present levels. To reflect the 1988 peak in real terms, after allowing for inflation, the upward move would have to be 89 per cent.

While agreeing with those analysts who suggest that copper will probably be in oversupply in 1997 and 1998, Mr Birch warns that production of the metal is concentrated in relatively few geographic centres and supply can be unpredictable because of unexpected interruptions. He says the collapse of copper production in Zaire and on the island of Bougainville, Papua New Guinea, were two examples of big supply interruptions. "It is dangerous to assume that the [copper] price will go down next year."

Mr Julian Baring, a director of MWMT, is equally sanguine about gold. He says: "There is a reasonable chance that we shall see the gold price closer to $500 [a troy ounce] than $400 in the next few years."

This is because gold traditionally has retained its purchasing power and the price has been lagging that long-term purchasing power since 1990. If it was to compensate for US inflation, gold should have been at $433 an ounce at the begining of this year, he suggests. "And gold is much cheaper in yen and [French] francs and other strong currencies." Last night gold closed in London at $395.20 an ounce.

Mr Baring says that traditional buyers of physical gold in regions such as the Middle East and India mop up the metal when they feel that prices are low and provide a firm "floor" for the price. However, price rises need the involvement of investors because there has not been one previous gold price peak where investors have not been active.

MARKET REPORT

White sugar steady after early plunge

The London Commodity Exchange's nearby white SUGAR contracts remained steady yesterday afternoon after falling dramatically earlier in the day. Traders said good support was found at the day's lows and the market helped by a more bullish tone in the New York market.

The May contract dropped $10 to $398 a tonne in the first 30 minutes of trading but trade buying at the lows pushed values back above the psychologically-important $400 level.

Short-covering and speculative buying on the New York raws market was said to have contributed to a steadier tone in London's afternoon trade.

The London GOLD price was stuck in a narrow range but dealers said there was room for a dip below technical support at $394 a troy ounce.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1592.5-93.5	1625.5-26.5
Previous	1599-600	1633-4
High/low	1594	1632/1624
AM Official	1594-94.5	1626-26.5
Kerb close		1631-32
Open int.	215,864	
Total daily turnover	35,996	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1350-60	1390-400
Previous	1360-70	1400-05
High/low		1405/1390
AM Official	1355-65	1394-400
Kerb close		1390-400
Open int.	5,372	
Total daily turnover	757	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	827.5-8.5	805-6
Previous	837-8	807-8
High/low	834	815/803
AM Official	834-4.5	807-8
Kerb close		815-6
Open int.	37,862	
Total daily turnover	7,992	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7965-95	8070-80
Previous	8030-40	8120-30
High/low		8160/7990
AM Official	7930-40	8030-40
Kerb close		8150-60
Open int.	40,130	
Total daily turnover	8,727	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6330-30	6350-60
Previous	6425-30	6450-55
High/low		6430/6350
AM Official	6350-60	6380-85
Kerb close		[illegible]
Open int.	17,199	
Total daily turnover	5,046	

■ ZINC, special high grade ($ per tonne)

[illegible]

■ COPPER, grade A ($ per tonne)

[illegible]

■ LME AM Official £/$ rate: 1.5198

LME Closing £/$ rate: 1.5165

[illegible]

■ HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]

■ CRB Futures (Base: 1967=100)

[illegible]

■ GSCI Spot (Base: 1970=100)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Apr	61.350	-1.500	62.675	61.350	8,483	13,265
Jun	61.225	-1.425	62.625	61.150	9,906	38,206
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

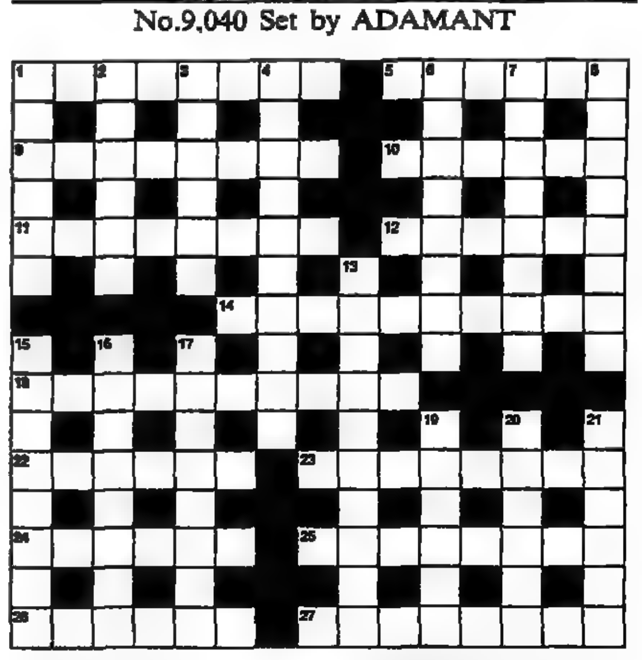
■ OTHER

[illegible]

JOTTER PAD

CROSSWORD

No.9,040 Set by ADAMANT



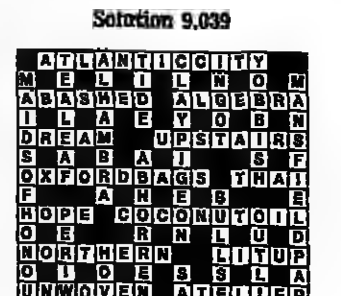
ACROSS

1 Half your climbs involved carrying an emblem (8)
5 Incline to order the vehicle outside (6)
9 Lose current name at centre of platform (6)
10 Refuse a stretcher (6)
11 Spoil period spent round island in the sea (8)
12 Get back, for example, into the shower (6)
14 Because of roadworks, is sent on detour? What ingenuity! (10)
18 Jack's petition for annulment (10)
22 As ties loosen and break (6)
23 To restrict supplies to a student is sensible (8)
24 The groups set out after a month (6)
25 Knight, like a hundred others imprisoned, is feeling worse (8)
26 Mislead, having taken the first steps back with due abandon (6)
27 Hold an alien in custody with computer technology (8)

DOWN

1 Source of oil in troubled Middle East area (6)
2 Poor in quality – only contains silver .... (6)
3 .... but gold (not available, note) is rich looking (6)
4 Hint that I'd go in and make threatening gestures (10)
6 I sent tea over, but something stronger was needed (8)
7 Let out the secret that the worker carried the board on the day (8)
8 The result of not overdoing it? (8)
13 Caught the speech, which included 'On the Making of a King' (10)
15 Father's blade should get you through (8)
16 The Chinese get into real trouble (8)
17 Having put it in the oven, the man got very excited (8)
19 Choose the French condiment (9)
20 Officer's flag (6)
21 Could it have been left in the other crate? (6)

Solution 9,039



INTERNATIONAL CAPITAL MARKETS

European sector shrugs off weakness in US

By Samer Iskandar in London and Lisa Bransten in New York

US Treasuries yesterday resumed their downward slide, but most European markets closed higher, lending further credence to the view that they are "decoupling" from the US. German and French bonds weakened in mid-afternoon, but quickly regained their footing to end the day above Tuesday's closing levels.

The strength of the dollar was a dominant factor in an otherwise quiet day, allowing peripheral European markets to outperform bunds. The US currency set records at more than DM1.50 and Y108.65, its highest levels in more than two years.

■ More worries about the potential for an increase in inflationary pressures in the domestic economy caused US Treasury prices to give back all of Tuesday's gains in early trading yesterday.

Near midday, the benchmark 30-year Treasury was off $\frac{5}{32}$ at $88\frac{7}{8}$, to yield 6.876 per cent, while at the short end, the two-year note fell $\frac{1}{16}$ to $100\frac{1}{4}$, yielding 6.041 per cent. The June 30-year bond future slipped $\frac{3}{8}$ to $109\frac{1}{16}$.

GOVERNMENT BONDS

At mid-morning, the labour department released a downwardly revised estimate of non-farm business productivity, which sparked fears that the days of moderate economic growth combined with low inflation were ending.

Fourth-quarter productivity fell 1 per cent in the fourth quarter, compared with the labour department's earlier estimate of a 0.5 per cent decline. Productivity increased 1.1 per cent for all of last year.

The productivity figures, combined with the strong February and March employment reports, served to intensify speculation about figures on producer and consumer inflation figures due out today and tomorrow. Economists expect a 0.4 per cent increase in the producer price index and a 0.3 per cent rise in the consumer price index for March.

Analysts said that if either of those figures was much stronger than estimates, it could spark another sell-off on the bond market.

■ German bonds opened higher and traded up most of the day following the release of data showing that unemployment had increased by 27,000 in west Germany in March, higher than economists had predicted. Liffe's June bund future settled at 96.48, up 0.23.

In the cash market, the annualised yield premium of Treasuries over bunds widened 5 basis points to 27, which intensified the debate among analysts on whether bunds had "decoupled" from US Treasury dominance. Only a few days earlier, Treasuries were still trading at a yield discount to bunds.

Analysts at Deutsche Morgan Grenfell in Frankfurt argued that although bunds might continue to outperform the US market in the short term, they did not "see chances of a real decoupling". Mr John Shepperd, chief economist at Yamaichi in London, said he believed decoupling had taken place, and pointed to bunds' resilience following the recent sharp fall in the US market.

However, he said he did not expect German bonds to continue to outperform Treasuries because a comparison of economic fundamentals in both countries suggested that a "fair" level for this spread lay in the 20 to 30 basis point range.

■ French OATs continued to show the strongest performance among "core" European markets. Rumours that the Banque de France was selling French francs to stem the currency's rise against the D-Mark fuelled expectations that the central bank would cut its intervention rate today.

Matif's June notional future settled at 122.10, up 0.32. The 10-year benchmark OAT rose 0.31 point to 105.03, narrowing the spread over 10-year bunds by 2 basis points to 12. Some analysts now predict even yields between France and Germany in the near future, a view not shared by Mr Shepperd. He said he believed any tightening to below the 10 basis point barrier "would be hard to sustain".

■ European high yielding markets, led by Italy, continued to outperform most other bonds. June futures contracts on Spanish bonds and Italian BTPs settled up 0.18 and 0.54, at 96.82 and 110.43 respectively. The BTP contract continued to rise, to as high as 110.55 on APT, Liffe's after-hours screen-based trading system.

The Swedish 6 per cent benchmark bond due 2005 rose 0.45 point to 85.10, yielding 8.46 per cent.

Ms Yasmine Ravai, a fund manager at Crédit Lyonnais Asset Management, said that high yielding markets, notably Sweden and Spain, "are supported by a firm political commitment to rigorous budgetary policy".

Several market professionals agreed that these markets had been "discounting a European monetary union scenario", and one trader added that there was "strong momentum behind the recent tightening, with potentially another 200 basis points before the gap [between Swedish and German yields] is filled".

However, Ms Raval warned that the strongest performers of the last three months could be the most exposed to a correction if monetary union was delayed.

■ UK gilts, lacking direction despite having opened up on Tuesday's levels, trailed weak US Treasuries. The March CBI Distributive Trades Survey, showing an easing in the growth of spending, failed to inspire the market.

The June long gilt future, listed on Liffe, ended the day at $105\frac{27}{32}$, up $\frac{3}{32}$. It had started the day on a more positive note, trading as high as $105\frac{29}{32}$. But sterling's weakness on the foreign exchange markets and political risk prevented gilts from rising further.

Liffe launches trading in fungible euroyen contract

By Richard Lapper

The launch today of trading in the euroyen contract at the London International Financial Futures and Options Exchange (Liffe) could strengthen the City's position as the international centre – outside Japan – of yen-denominated swaps and currency business.

The contract, the second most popular money market future in the world, is listed at the Tokyo International Financial Futures Exchange (Tiffe) and is being traded in London as part of a link agreement between the two exchanges.

Mr Philip Bruce, managing director of strategic business development at Liffe, predicted that demand for the contract would come from swaps and currency traders who bought and sold the contract in order to hedge their own exposures with other banks and commercial customers.

Some $2,000m of yen interest swaps were outstanding at the end of 1994, with approximately 40 per cent of end-users located outside Asia, most of them in London.

The euroyen contract is fully "fungible", allowing dealers to transfer open positions between the two exchanges. Trading on the Liffe floor will take place between 9.00am and 4.00pm, resuming in Tokyo between 9.00am and 6.00pm Japanese time.

Open interest in the euroyen contract – currently amounting to 1,216,000 contracts – is to be transferred back and forth between Tokyo and London.

However, unlike the mutual offset system used in other international link-ups, clearing will take place only in Tokyo. Liffe members must sign a legal agreement – a "linked clearing agreement" – with a Tiffe member in order to clear their contracts in Tokyo. Liffe said yesterday that some 60 of its members had signed such agreements.

Liffe clearing members will pay Y50 "per side" – Y50 for each contract bought and Y50 for each contract sold – while Tiffe members will pay the same amount to the Tokyo exchange.

Liffe already trades the Japanese government bond future – the JGB – in London, through an agreement with the Tokyo Stock Exchange signed in 1987, but the contract is not fungible and positions do not roll over automatically from London to Tokyo. Average daily volume of JGB futures traded in London amounts to 4,000 contracts.

Mr Bruce said Liffe would like to contribute greater liquidity to trading in the back months of the euroyen contract. Like Liffe's existing short-term contracts it is listed over three years and has 12 separate delivery months. "We see an opportunity for Liffe locals to make a market in the back months," he said.

Liffe began working three years ago on its link-up with the Tiffe, which lists the contract as part of international links with other exchanges, and signed an agreement last year.

Later this year, it plans to begin limited floor trading in the US T-Bond futures contract in London as part of a similar alliance with the Chicago Board of Trade (CBoT). The CBoT will in turn trade some of Liffe's main contracts on a limited basis during the Chicago day.

● Meff, the Spanish derivatives exchange, and Liffe said yesterday they had established a study group to look at possibilities for co-operation.

Polish Brady bonds rally sharply on ratings upgrade

By Conner Middelmann

The Republic of Poland's outstanding dollar eurobonds and Brady bonds rallied sharply yesterday on the decision by Standard & Poor's, the rating agency, to lift the country's debt rating by two notches into investment-grade territory.

INTERNATIONAL BONDS

Although Moody's has ranked Poland an investment-grade Baa3 since the country was first rated last summer, the fact that both agencies now concur on its investment-grade status has enhanced its perception in the eurobond market.

S&P raised its long-term foreign-currency credit rating to BBB- and assigned a BBB- rating to Poland's Brady bonds, which rallied by about 3 points on the news. The moves "reflect the economy's continuing dynamism and dramatically improved external flexibility" and are "further supported by a calmer political environment," S&P said.

The announcement caused the spread on Poland's 7¾ per cent eurobonds due 2000 to tighten to 80 basis points over Treasuries, from around 115 basis points before the announcement. The $350m issue was launched last June via J. P. Morgan at a spread of 185 basis points over US government bonds.

Poland is likely to reap the benefits of the latest rating action when it issues its first D-Mark eurobond, rumoured to be in the order of DM300m to DM500m with maturity of up to five years and expected within the next two months. "Banks will have to adjust their pricing parameters for the D-Mark issue," said one syndicate official. Greece, which has the same ratings as Poland, is seen as a pricing benchmark: it issued DM1bn of seven-year bonds yielding 100 basis points over bunds in January.

Yesterday's other eastern European news was a debut deal for the City of Tallinn, which became the first Estonian issuer to tap the eurobond market with a DM60m issue of 6 per cent amortising bonds with a final maturity of three years. The bonds were priced at par to yield the fixed-rate equivalent of six-month Libor plus 1.76 per cent, according to lead manager Nomura. The bonds were placed among Estonian institutions, German retail accounts and UK-based emerging-markets funds. The World Bank issued DM300m of five-year bonds through Bayerische Vereinsbank and a L200bn capped floating-rate note offering via bookrunner Credito Italiano.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Finnish Export Credit	200	6.625	100.28R	May 2000	0.225R	+16(i)	Sakura Finance International
D-MARKS							
World Bank	300	5.25	99.77R	May 2001	0.25R	+15(5½%-00)	Bayerische Vereinsbank
GECC(a)	125	3.375	96.48	Jun 2000	2.50	-	Deutsche Morgan Grenfell
City of Tallinn(b)	60	6.00#	100.00	Apr 1999	0.875	-	Nomura Bank(Deutschland)
SWISS FRANCS							
L-Bank(s)	150	3.75	102.35	Nov 2001	2.00	-	UBS
ITALIAN LIRE							
World Bank(c)	200bn	(c1)	100.26	May 2003	0.35	-	Credito Italiano
PESETAS							
European Investment Bank(d)	10bn	7.50	97.80	Mar 2001	1.625	-	Banco Central Hispano

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with DM275m. Plus 325 days accrued. b) Amortises DM12m semi-annually from 16/4/97. c) Callable annually from 30/5/97 at par. c1) 3-mth Libor +5bp, max 12%. d) Fungible with Pta60bn. Plus 60 days accrued. i) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.0120	+0.070	9.00	8.88	8.78
Austria		6.125	02/06	97.1100	-0.060	6.53	6.48	6.61
Belgium		7.000	05/06	102.0600	+0.460	6.71	6.71	6.86
Canada *		8.750	12/05	106.6500	+0.050	7.76	7.59	7.54
Denmark		8.000	03/06	103.4200	+0.120	7.50	7.49	7.62
France	BTAN	5.750	03/01	100.3750	+0.300	5.67	5.69	5.84
	OAT	7.250	04/06	105.0300	+0.310	6.55	6.54	6.66
Germany Bund		6.000	02/06	96.9000	+0.120	6.43	6.40	6.41
Ireland		8.000	08/06	100.2000	+0.100	7.95	8.00	7.91
Italy		9.500	02/06	95.3600	+0.370	10.26†	10.51	10.33
Japan	No 129	6.400	03/00	116.4090	+0.310	1.91	1.75	2.15
	No 182	3.000	09/05	98.5510	+0.180	3.20	3.08	3.39
Netherlands		6.000	01/06	97.1200	+0.280	6.40	6.36	6.40
Portugal		11.875	02/05	118.2000	+0.250	9.27	9.46	9.57
Spain		10.150	01/06	104.0200	+0.220	9.48	9.65	9.55
Sweden		6.000	02/05	85.1020	+0.440	8.46	8.48	8.84
UK Gilts		8.000	12/00	102-00	+4/32	7.45	7.44	7.27
		7.500	12/06	95-25	+5/32	8.10	8.11	8.01
		9.000	10/08	106-09	+7/32	8.15	8.21	8.14
US Treasury *		5.625	02/06	93-02	-2/32	6.56	6.33	6.15
		6.000	02/26	88-28	-11/32	6.88	6.66	6.51
ECU (French Govt)		7.500	04/05	102.9200	+0.270	7.05	6.98	7.24

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.05	Two year	6.04
Prime rate	$8\frac{1}{4}$	Two month	4.95	Three year	6.17
Broker loan rate	7	Three month	5.08	Five year	6.37
Fed funds	$5\frac{1}{4}$	Six month	5.30	10-year	6.57
Fed funds at intervention	-	One year	5.60	30-year	6.87

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	121.98	122.10	+0.32	122.16	121.92	97,118	147,764
Sep	120.66	120.78	+0.28	120.84	120.66	985	4,877
Dec	119.40	119.52	+0.28	119.40	119.40	2	664

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
119	-	-	-	0.04	0.22	0.97
120	-	-	-	0.07	0.35	-
121	1.28	-	1.54	0.17	0.58	1.74
122	0.55	1.03	1.09	0.44	0.92	-
123	0.16	0.65	-	-	-	-

Est. vol. total, Calls 13,577 Puts 16,302. Previous day's open int., Calls 148,282 Puts 171,401.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.36	96.48	+0.23	96.51	96.24	114116	218719
Sep	-	95.62	+0.23	-	-	0	5396

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
9600	0.72	1.06	0.82	1.17	0.24	0.60	1.20	1.55
9650	0.41	0.76	0.60	0.94	0.43	0.80	1.49	1.82
9700	0.19	0.54	0.43	0.74	0.71	1.06	1.81	2.12

Est. vol. total, Calls 14136 Puts 11682. Previous day's open int., Calls 240736 Puts 198649

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	110.20	110.43	+0.54	110.60	110.05	38155	45820
Sep	-	109.66	+0.54	-	-	0	258

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11000	1.65	2.39	1.22	2.51
11050	1.38	2.16	1.45	2.78
11100	1.13	1.94	1.70	3.06

Est. vol. total, Calls 5847 Puts 4093. Previous day's open int., Calls 60743 Puts 73490

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.85	96.82	+0.19	97.10	96.67	48,954	40,234

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-15	105-15	+0-08	105-25	105-09	36528	119168
Sep	-	104-12	+0-08	-	-	0	165

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
105	0-50	1-25	1-11	1-44	0-25	0-60	1-61	2-20
106	0-26	0-56	0-51	1-18	0-60	1-28	2-27	2-58
107	0-09	0-33	0-30	0-61	1-43	2-03	3-09	3-37

Est. vol. total, Calls 1451 Puts 1172. Previous day's open int., Calls 40065 Puts 38999

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.00	90.02	+0.26	90.16	89.94	1,340	8,066
Sep	-	89.30	+0.26	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	109-14	109-03	-0-11	109-19	108-28	264,494	367,940
Sep	109-00	108-21	-0-09	109-02	108-13	1,124	22,270
Dec	108-05	108-15	-	108-15	108-02	285	4,509

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.90	-	-	119.10	118.82	2097	0
Sep	117.98	-	-	117.98	117.92	80	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Apr 10	Day's change %	Tue Apr 9	Accrued interest	xd adj. ytd		Low coupon yield Apr 10	Apr 9	Yr. ago	Medium coupon yield Apr 10	Apr 9	Yr. ago	High coupon yield Apr 10	Apr 9	Yr. ago
1 Up to 5 years (24)	121.53	+0.10	121.41	2.35	2.45	5 yrs	7.56	7.60	8.23	7.59	7.64	8.31	7.69	7.75	8.44
2 5-15 years (19)	145.41	+0.26	145.03	2.84	2.55	15 yrs	8.24	8.27	8.39	8.25	8.28	8.40	8.35	8.38	8.60
3 Over 15 years (9)	159.37	+0.34	158.83	2.86	3.48	20 yrs	8.31	8.33	8.32	8.30	8.33	8.40	8.39	8.42	8.54
4 Irredeemables (6)	182.03	+0.27	182.54	3.82	1.47	Irred.†	8.36	8.37	8.37						
5 All stocks (58)	140.93	+0.22	140.62	2.05	2.87										

Index-linked							Inflation 5% Apr 10	Apr 9	Yr. ago	Inflation 10% Apr 10	Apr 9	Yr. ago
6 Up to 5 years (1)	197.69	+0.08	197.54	4.05	0.00	Up to 5 yrs	3.01	3.01	3.18	1.71	1.71	1.88
7 Over 5 years (11)	185.71	+0.24	185.27	1.13	1.16	Over 5 yrs	3.74	3.76	3.79	3.56	3.58	3.63
8 All stocks (12)	185.85	+0.23	185.42	1.19	1.16							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Apr 10	Apr 9	Apr 4	Apr 3	Apr 2	Yr ago	High*	Low*
Govt. Secs. (UK)	92.48	92.27	92.52	92.40	92.57	92.21	96.34	91.97
Fixed interest	111.87	111.81	111.89	111.84	111.56	110.84	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/93), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Apr 9	Apr 4	Apr 3	Apr 2	Apr 1
Gilt Edged bargains	76.9	89.1	94.3	90.8	81.5
5-day average	86.5	92.6	98.1	101.9	102.6

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on April 10

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar rallies as sterling suffers jitters

By Philip Gawith

The dollar yesterday rallied to reach a seven month high against the D-Mark, but the upward move lacked momentum and it closed slightly below the key DM1.50 level.

The dollar's rally is being driven by favourable interest rate differentials, compared to the D-Mark, but the upside is capped at present by significant technical resistance. The dollar finished in London at DM1.4997, from DM1.4918, having earlier reached an intraday high of DM1.5020.

The D-Mark lost ground against most currencies, but its losses were overshadowed by the fall in sterling amid rumours of the resignation of Mr Kenneth Clarke, the chancellor.

The pound finished little changed against the D-Mark at DM2.2750, but was weaker against the dollar, at $1.5165, from $1.5250. Later in New York it was trading at DM2.2650 and $1.5050.

The main beneficiary of the D-Mark's weakness was the Swedish krona, which closed at SKr4.47, from SKr4.501. The Franc closed at a 25 month high of FFr3.399.

The South African closed at a new historic low of R4.1825, from R4.155, against the dollar.

■ While it remains early days, currency markets appear to have thrown off the shackles which so constricted trading in the run-up to Easter.

Although the dollar's rally against the yen and the D-Mark enjoys a superficial economic logic, with the US economy much stronger than its G-3 partners, the technical outlook is also favourable.

Ms Francoise Skelley, technical analyst at Credit Suisse in London, notes that prior to last week, when the high-low range of dollar/D-Mark was only 0.6 percentage points, there had only been four previous occasions since January 1983 when the weekly fluctuation range had been as little as 0.4-0.6 percentage points.

On each occasion, the dollar then proceeded to rally 6-12 per cent in the following ten weeks. "When the market coils down, it's like a spring," said Ms Skelley. Her medium term (up to three months) forecast is for the dollar to reach DM1.56/8 and Y113.60.

Mr Nick Parsons, currency analyst at Paribas Capital Markets in London, said the dollar faced heavy resistance at DM1.5065 – a key technical level, representing a 38.2 per cent retracement of the 42.4 pfennig down-move, during 1994/5, from DM1.7685 to DM1.3445. He said neither the weakness of German economic data, nor the strength of the US figures had provided the momentum to test this level.

Mr Parsons pointed out that over the past few weeks, there had been the first indications of the market buying the dollar for yield reasons. Three month dollar deposits are now yielding around 200 basis points more than in Germany. "There is a very good argument, based on short-term yield differentials, to be buying the dollar."

The long end of the yield curve also favours the dollar. Ten year bunds are now yielding around 25 basis points less than equivalent Treasury bonds. The last time this occurred was in late 1993, and it was the prelude to a ten per cent upward rally in the dollar, to DM1.75, from DM1.59.

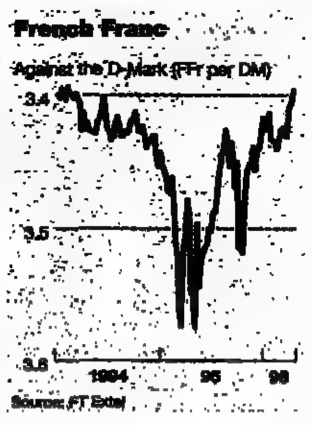
■ The weakness of the D-Mark was best illustrated by the performance of the lira, which continues to rally despite imminent elections which may well fail to produce a government with a decisive mandate.

The big loser, though, was sterling. After hitting a seven month high of DM2.2825 against the D-Mark in the morning, it then started to slide after the London close. Partly this reflected nobody wishing to be long sterling so close to a by-election the government seems set to lose, while it was also a function of rumours about further Tory political resignations. Selling was also accelerated by the breach of $1.5170, an important resistance level.

■ Mr Graham Bell, head of equities at Standard Bank in London, posited three main factors behind the rand's weakness: South African importers accelerating their rand sales; the unwinding of speculative positions which built up in the bond market in the first quarter; and outright short-term currency speculation. He said there was also evidence of market disappointment that Mr Trevor Manuel, the new finance minister, had not been more robust in his rebuttal of investor fears that he would prove to be a "soft touch".

French Franc

Against the D-Mark (FFr per DM)



Source: FT Extel

■ Pound in New York

Apr 10	Latest	Prev. close
£ spot	1.5165	1.5205
1 mth	1.5159	1.5199
3 mth	1.5146	1.5187
1 yr	1.5088	1.5130

■ OTHER CURRENCIES

Apr 10	£	$
Czech Rp	41.4889 - 41.5297	27.3680 - 27.3780
Hungary	219.456 - 219.662	144.760 - 144.810
Iran	4551.70 - 4548.00	3000.00 - 3000.00
Kuwait	0.4548 - 0.4554	0.3000 - 0.3002
Poland	3.9608 - 3.9675	2.6125 - 2.6155
Russia	7426.83 - 7435.71	4895.00 - 4905.00
U.A.E.	5.5672 - 5.5713	3.6723 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

UK INTEREST RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9075	0.35	0.76	0.86	0.26	0.26	0.37
9100	0.21	0.57	0.72	0.36	0.32	0.45
9125	0.12	0.43	0.56	0.52	0.43	0.54

Est. vol. total, Calls 2215 Puts 581. Previous day's open int., Calls 22515 Puts 11778

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ◆ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
h Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue pending rights issue.
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
I Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Kleinwort Benson Intl Fd Mgrs Ltd

Lazard Freres Asset Management (CI) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

Commercial Union Capital Int Mngt

Dantrust Management (Guernsey) Ltd

Global Portfolio Management (Guernsey) Ltd

Guernsey Capital Management Ltd

Kleinwort Benson Intl Fd Mgrs Ltd

Lazard Fund Managers (CI) Ltd

Lazard Freres Asset Management (CI) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

Royal Bank of Canada Intl Money Market Fd

Schroder Investment Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

AIB Fund Managers Ltd

Bank of Ireland Asset Mngt

Christows Investments Plc

Coutts & Co Fund Managers Ireland Ltd

The Fidelity Trust Global Fund

Global Asset Management

Henderson Crosthwaite Investment Co

LGT Asset Management Ltd

Morgan Grenfell Investment Funds Ltd

Murray Johnstone (Dublin) Ltd

Pacific International Fund Plc

Swiss Life Investment Fund - Proteus

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Argenta European Hedge Fund plc

Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund

Asian Diversified Equity Fund Plc

Asian Emerging Markets Fund Plc

Asian Gateway Fund Plc

Asian Growth Fund Plc

Atlantis Korean Smaller Companies Fund

Bank of Ireland Asset Mngt

Berkshire KTC Growth Fund Plc

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citizens Investment Trust Mngt Company

Delvin Europe Fund Mgrs Ireland Ltd

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Intl Mgt Services Ltd

East Asia Income Fund Ltd

Emerging Markets Growth Fund Plc

Falcon Market Fund Plc

Fresh Korea Fund

Gartmore Capital European Fund Plc

Global Rosenberg Stock Fund

Gordon House Asset Management Ltd

Korea Balanced Return Fund

Korea Capital Growth Fund

Korea Golden Dynasty Fund Plc

Korea Open Fund

Korea Spirit Fund Plc

LST Asset Management Ltd

Morgan Grenfell Income Funds Plc

Pacific 21st Century Fund

Pacific Growth Fund Ltd

Paribas Asset Management Ireland Ltd

J. Rothschild International Assce plc

SBC CAPS Strategies Plc

Tomasco Korea Fund

Ulster Bank Investment Funds Ltd

Yellow Sea Investment Company

Yield Korea Fund

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Ltd

Allied Dunbar Intl Fund Mgrs

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Rothesay Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

Bank of Ireland Asset Mngmt (IOM) Ltd

City Financial Admin (IoM) Ltd

Quilter Intl Mngt (IoM) Ltd

Sylvain International Fund Management Ltd

For Isle of Man Regulated funds see Isle of Man (SIB)

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Coutts & Co (Jersey) Fund Managers Ltd

Gartmore Fund Managers Intl Ltd (u)

Guinness Flight Fund Managers Ltd

Lloyds Bank (CI) U/T Mgrs

Midland Bank Fund Managers (Jersey) Ltd

Newton Fund Mgrs (CI) Ltd

Save & Prosper International

JERSEY (REGULATED)(**)

Bank of Scotland Fund Managers (Jersey) Ltd

Barclays Intl Funds

Fleming Group

Foreign & Colonial Mngt (Jersey) Ltd

John Govett Management (Jersey) Ltd

INVESCO International Limited - Contd.

Jupiter Tyndall (Jersey) Ltd

Lombard Odier (Jersey) Ltd

Lazard Financial Services Limited

Mercury Asset Mngt Channel Islands Ltd

Lloyds Private Banking (CI) Ltd

Perpetual UT Mngrs (Jersey) Ltd

Royal Bank of Scotland Fd Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

SG Fund Managers

TSB Fund Managers (CI) Ltd

Warburg (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds

Fleming Group

Fleming Flagship Fund

Foreign & Colonial Emerging Markets Ltd

Henderson Horizon Fund

HSBC Investment Funds Luxembourg SA

Lazard Freres

Midland Intl Circle Fund SICAV

Nomura Global Fund

Rothschild Asset Management

EastFund—Wright National Eqty Fd (a)

LUXEMBOURG (REGULATED)(**)

Actos International Umbrella Fund

Alliance Capital

Americanos Fund SICAV

Banque Scandinave En Suisse

Coopers Investment Mngt (Luxembourg) SA

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Sun Life Global Management Ltd

Templeton Global Strategy Funds

Credo Investment Funds

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Pan-Holding SA

Pictet Group

CMI Insurance Co Ltd - Contd.

Royal Life International - Contd.

Royal Skandia Life Assurance Ltd

Cathay Investment Fund Limited

Chameleon Funds Limited

Cheecor Indian Investment Company Ltd

The China Fund

Global Asset Management - Contd.

MD Sass Re/Enterprise International Ltd

MFS Meridian Funds

McGinnis Global Fund Ltd

Regent Kingpin Capital Management Ltd

Regis Asset Management

Republic Funds

Sun Alliance International Life

PO Box 77, Les Echelons Ct, St Peter Port, Guernsey 01481 714108

Sun Life International (IOM) Ltd

Bridge House, Castletown, Isle of Man

OTHER OFFSHORE FUNDS

ATSP Management Ltd

AXA Asset Management

Acciones y Valores de Mexico SA de CV

Africa Emerging Markets Fund

Agribusiness Fund Management Co

Alliance Capital

Allied Dunbar International Fund Mngrs (Jersey)

Alpha Fund Management Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie falters within a few points of its peak

By Steve Thompson, UK Stock Market Editor

A positive early performance by gilts, renewed takeover speculation across various sectors of the market, and talk of a substantial buy programme focused principally on the financial stocks, drove UK equities higher yesterday.

In the background, the latest Confederation of British Industry survey of distributive trades painted a relatively healthy picture of the UK retail scene.

And Tuesday's news that the Nationwide Building Society had taken a further step in increasing the pace of the mortgage price war did no harm to sentiment.

The news was interpreted by some in the market as possibly front-running another reduction in UK interest rates.

Wall Street's continuing uncertainty, which saw the Dow Jones Industrial Average lose some 120 points in two days after last week's US non-farm payroll report, was among the market's only real worries yesterday. The Dow came under renewed pressure yesterday, taking the top off London equities and introducing real concern about the market's ability to make any substantial further progress in the short term. The Dow fell away early on in the wake of US Treasury bonds, which began to back off, taking gilts with them. Around 90 minutes after the close of trading in London the Dow was showing a marginal increase on the session.

Nevertheless, the impetus behind the London market for much of the day was such that the FT-SE 100 looked like taking a run at its all-time closing high and its intra-day peak. At its best of the day, 3,775.1, shortly after midday, the FT-SE 100 was only 6.2 short of its previous closing peak and 17.4 away from its intra-day best, which it reached last month. Marketmakers said a substantial trading programme, heavily weighted on the buy side and said to have been executed by BZW, was a prime motivation behind the market's initial strong performance.

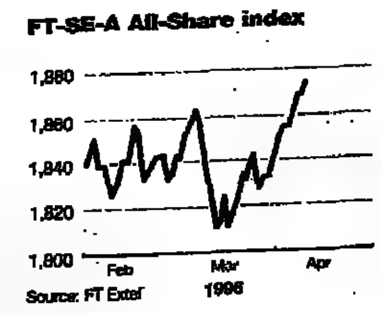
The Footsie ended the day a net 8.8 ahead at 3,767.4, while the FT-SE Mid 250 index, representing the market's second-line stocks, rose 10.0 to 4,387.1.

There was good news for the City's big trading houses in the level of activity, which expanded rapidly from Tuesday's rather depressed level of 616m shares. At 6pm, turnover had reached 797.3m shares, with non-Footsie stocks accounting for just over half the total.

Around the various sectors, the banks caught the eye, mostly ignoring the latest developments in the mortgage price war and responding instead to news of the merger discussions between CS Holding and Union Bank of Switzerland. Some traders said a merger of the two Swiss giants would lead to further consolidation in the UK banking arena. The two Scottish banks and Standard Chartered, long viewed as prime bid targets, were among the best performing Footsie stocks.

BP and British Gas continued to attract exceptionally heavy trading activity, with both stocks closing well up on the session amid persistent speculation that the former could be running a slide rule over the latter.

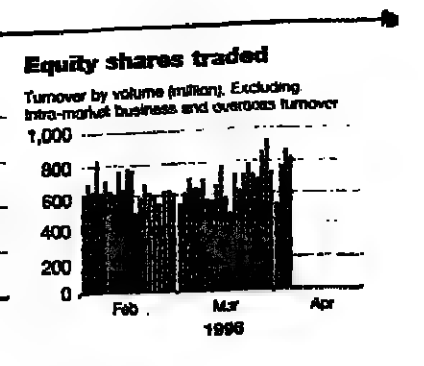
FT-SE-A All-Share Index



Source: FT Extel

Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3767.4	+8.8
FT-SE Mid 250	4387.1	+10.0
FT-SE-A 350	1896.1	+4.4
FT-SE-A All-Share	1874.25	+4.39
FT-SE-A All-Share yield	3.75	3.76
FT Ordinary index	2802.7	+7.6
FT-SE-A Non Fins p/e	17.32	17.30
FT-SE 100 Fut Jun	3774.0	+15.0
10 yr Gilt yield	8.09	8.11
Long gilt/equity yld ratio:	2.24	2.24

Best performing sectors

1 Building Mats & Merchs .... +1.3
2 Retailers: General .... +1.3
3 Extractive Industries .... +1.2
4 Building & Construction .... +1.0
5 Oil: Integrated .... +0.9

Worst performing sectors

1 Water .... −1.1
2 Electricity .... −0.9
3 Pharmaceuticals .... −0.7
4 Tobacco .... −0.6
5 Food Producers .... −0.5

Banks return to fore

Prospects of a merger between Switzerland's two largest financial institutions got the UK bank bid ball rolling yesterday.

It was largely a case of rounding up the usual suspects as **Royal Bank of Scotland** bounded towards the top end of the Footsie leaders, followed closely by **Standard Chartered**.

RBoS has been hard hit over the past couple of weeks with word leaking into the market that profits at the bank's Direct Line insurance subsidiary will be dire.

But it has also been seen as a perennial bid target in spite of its stated desire for independence.

The shares forged ahead 13 to 504p, while Standard, seen as an obvious morsel for HSBC, put on 13 at 650p.

Behind the takeover talk there was also a recommendation from James Capel, which reiterated its support for Standard, Barclays and Lloyds TSB. Barclays shares rose 9 to 733p and Lloyds 2 to 320½p.

Cyclical shift

The shift from defensive stocks to cyclicals, which is beginning to bite in the US, was also starting to show itself in the UK stock market.

A Wall Street sell-off of pharmaceuticals stocks hit UK leaders **Glaxo Wellcome** and **SmithKline Beecham**. Glaxo declined 10 to 798p, with some additional pressure from a story that Astra was cutting the price of Losec, which is the rival to Glaxo's headline asthma product. It turned out that the cuts were only being made in Sweden and merely reflected European harmonisation rules. SmithKline "A" dipped 4 to 681p.

Zeneca was 2 firmer at 1401p with some help from confirmation that the EU has approved the merger of Zeneca Seeds and Royal Vanderhave.

Meanwhile, **ICI**, generally regarded as being in the front rank of cyclical stocks, stood out with a jump of 14 to 912p.

Mirror speculation

Mirror Group, which has lost out in the recent enthusiasm for media stocks, caught up with a rush on heavy speculative buying.

The shares shot forward 12 to 333p, with turnover hitting 13m as several dealers fingered **Carlton Communications** as an obvious suitor for the newspaper group.

There is logic behind the argument. Carlton would instantly get hold of 20 per cent of Scottish Television and 20 per cent of HTV. But Carlton has been steering analysts away from the idea and much will depend on PDFM, the fund manager which owns nearly 20 per cent of Mirror Group. Carlton gained 6 at 482p.

Some water shares were restrained by the prospect of extra stock sloshing around the market.

SBC Warburg announced that it had taken up the rump of the government's remaining shareholding in six water companies for around £77m.

Warburg took on 3.5m shares in **Thames Water**, which fell 15 to 563p, 2.7m in **United Utilities**, down 5 at 585p, 2.6m in **Anglian**, 9 lower at 584p, 1.5m in **Yorkshire**, off 7 at 679p, 1.2m in **Southern**, 2 easier at 739p, and 0.9m in **Hyder**, 2 softer at 741p. The broker is expected to place the stock with institutions over the next few days.

Merchant bank **Singer & Friedlander** saw unusually heavy trade after two blocks of 2m shares were placed at 101½p and 102p respectively. S&F firmed a penny to 103p.

Cadbury Schweppes rose in early trade on talk of broker upgrades by SBC Warburg and ABN Amro Hoare Govett. However, both brokers denied having changed their recommendations and the stock closed only a penny higher at 488p.

A Confederation of British Industry survey, published overnight, which hinted at a return of the "feel good" factor, coupled with cuts in mortgage lending rates, helped to give a shine to a number of retailers. Among the main beneficiaries were **MFI**, which went up 5 to 171p, **Kingfisher**, 11 ahead at 582p, and **Next**, up 6 to 533p.

More evidence of consumers being keener to part with their cash came with the results from **Headlam**, the UK's largest distributor of carpets and curtains, which reported a 33 per cent increase in profits. Its share price rose 15 to 248p.

Among the smaller retailers, **Moss Bros**, the outfitters, made one of the day's biggest gains, up 36 to 795p, following its annual results which showed profits up by 52 per cent. Plans for continued expansion include a further 10 to 12 shops being scheduled to open later this year.

Granada's announcement that it was raising room rates had a knock-on effect on a number of companies with UK hotel divisions, according to analysts.

Whitbread, which would be a major beneficiary, saw its share price go up 11 to 706p. **Vaux** rose 7 to 284p and **Greenalls** 3 to 587p. Granada shed a penny to 793p.

In the drinks sector, **Bass** fell 7 to 758p on the back of profit-taking, as was the case with **JD Wetherspoon**, which retreated 17 to 907p. **Grand Metropolitan** moved up 4 to 426p, with the group gaining from reports of firmer spirits prices.

Building materials group **Wolseley** was the star Footsie performer with an advance of 15 to 454p.

The company has been visiting analysts and giving some comfort over future prospects, following disappointing interim figures a month ago.

Wolseley does about half its business in the US and has been easing worries about a cyclical downturn there, arguing that any weakness is merely the result of bad weather.

Eurotunnel units put on 2 at 70p to reflect a 7.5 per cent rise in the Paris-quoted shares. Dealers said one big US holder, Capital Group, had stopped selling its shares and there were reports of strong passenger figures for Easter.

Initial trading at **Avocet Mining**, the company which made its market debut last week, does not appear to be going to plan. Turnover has been niggardly and the shares, placed at 240p apiece, fell 14 to 213p yesterday.

F.I. Group, the computer services company, made a strong market debut yesterday. The shares started trading at 290p and finished the day 10 higher at 300p, a healthy premium to their 235p offer price.

Hopes of great things when Mr Richard Lapthorne, the finance director of British Aerospace, takes over as non-executive chairman of **Amersham** helped shares in the medical diagnostics company climb 9 to 974p.

Adare Printing improved 15 to 480p after a recent acquisition. And **Bemrose** advanced 26 to 408p in belated response to a recommendation by ABN Amro Hoare Govett.

Cortecs International jumped 33 to 310p after releasing final results of the first Phase II clinical trial of its oral osteoporosis treatment.

Headlam, the floor coverings and soft furnishings group, moved forward 15 to 248p on positive prospects.

MARKET REPORTERS:
Peter John,
Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Apr 10	Apr 9	Apr 4	Apr 3	Apr 2	Yr ago	*High	*Low
Ordinary Share	2802.7	2795.1	2796.7	2784.0	2796.5	2447.5	2807.9	2696.7
Ord. div. yield	3.85	3.87	3.87	3.88	3.86	4.32	4.09	3.75
P/E ratio net	16.85	16.79	16.80	16.58	16.66	16.80	17.26	15.96
P/E ratio nil	16.61	16.54	16.56	16.24	16.34	16.72	17.09	15.76

Ordinary Share index since compilation: high 2807.9 06/03/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2799.9	2803.7	2803.5	2804.0	2809.2	2809.1	2804.6	2798.4	2799.6	2810.7	2797.1

	Apr 10	Apr 9	Apr 4	Apr 3	Apr 2	Yr ago
SEAQ bargains	34,222	35,767	48,166	49,354	52,469	21,461
Equity turnover (£m)†	-	1574.6	2125.6	1980.1	2083.3	1514.6
Equity bargains†	-	48,332	56,711	64,790	61,396	30,725
Shares traded (ml)†	-	612.3	512.5	866.5	770.6	583.0

†Excluding intra-market business and overseas turnover.

	Apr 10	Apr 9	Apr 4	Apr 3	Apr 2	Yr ago	*High	*Low
FT-SE AIM	989.60	984.60	991.40	991.00	990.70	-	1054.62	965.66

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	843	Total Highs	174	Total contracts	29,613
Total Falls	445	Total Lows	17	Calls	13,232
Same	1,498			Puts	16,381

Apr. 10 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

(APT)

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est vol	Open int.
Jun	3768.0	3774.0	+15.0	3784.0	3759.0	10918	58021
Sep	3783.0	3783.0	+15.0	3783.0	3783.0	10	2440
Dec	-	3809.0	+15.0	-	-	0	31

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est vol	Open int.
Jun	-	4400.0	+5.0	-	-	0	3519

■ FT-SE 100 INDEX OPTION (LIFFE) (*3765) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
-	F.P.	28.4	702	675	Abtrust Em Asia
-	F.P	28.5	96	95	Advent VCT
-	F.P.	11.6	24½	20	Aegis Wrts
-	F.P.	14.3	95	95	British Smlr Cos
-	F.P.	21.1	235	230	Cambridge Wtr NV
-	F.P.	28.5	95	95	Close Bros VCT
270	F.P.	31.8	325	305	†Dicom
100	F.P.	15.0	137	105	Easynet
235	F.P.	80.1	300	245	FI Group
165	F.P.	38.7	183	180	†First Info
-	F.P.	44.8	55	52	Fleming Wrld Inc
-	F.P.	81.1	195	183	Fulmar
-	F.P.	50.9	96	93½	GT Inc Grwth Tst
-	F.P.	20.2	98	90	Gartmore VCT
-	F.P.	21.4	95	95	Guinness Fl VCT
100	F.P.	27.2	97	95	HB Smi UK Emg Co

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

[illegible]

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FT - SE Actuaries Share Indices — The UK Series

	Apr 10	Day's chge%
FT-SE 100	3767.4	+0.2
FT-SE Mid 250	4387.1	+0.2
FT-SE Mid 250 ex Inv Trusts	4419.8	+0.2
FT-SE-A 350	1896.1	+0.2
FT-SE-A 350 Higher Yield	1834.8	...
FT-SE-A 350 Lower Yield	1958.2	+0.2
FT-SE SmallCap	2114.94	+0.1

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE
In re:

KALVAR MICROFILM, INC., ANACOMP, INC., ANACOMP INTERNATIONAL N.V., FLORIDA A & C CORPORATION and XIDEX DEVELOPMENT COMPANY,

Debtors.

Chapter 11
Case No. 96-15 (HSB)
Jointly Administered

NOTICE OF AVAILABILITY OF VOTING PACKAGES AND OF HEARING TO CONSIDER CONFIRMATION OF DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION

TO THE HOLDERS OF 9% CONVERTIBLE SUBORDINATED DEBENTURES OF ANACOMP INTERNATIONAL N.V.

You are hereby notified that by order (the "Order") dated March 28, 1996, the United States Bankruptcy Court for the District of Delaware (the "Court") has approved the Debtors' Disclosure Statement Pursuant to Section 1125 of Title 11 of the Bankruptcy Code For The Second Amended Joint Plan Of Reorganization Of Anacomp, Inc. And Certain Of Its Subsidiaries (the "Disclosure Statement") as containing "adequate information" as that term is defined in Section 1125 of the Bankruptcy Code with respect to Debtors' Second Amended Joint Plan of Reorganization (the "Plan"). The Order fixes May 8, 1996 at 4:30 p.m., Eastern Daylight Time, as the deadline for receipt by Logan & Company, Inc., the Debtors' Ballot Agent, of ballots accepting or rejecting the Plan.

The hearing on confirmation of the Plan will be held at the United States Bankruptcy Court, 824 Market Street, 6th Floor, Wilmington, Delaware on May 17, 1996 at 10:00 a.m. (Eastern Daylight Time). Objections to confirmation of the Plan must be in writing, must be in conformity with all applicable provisions of the United States Bankruptcy Code, the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, must state with particularity the legal and factual basis for the objections and must be filed with the Court and served upon, so as to be received by, (i) the Debtors' undersigned counsel, (ii) counsel to the Official Committee of Unsecured Creditors, Daniel H. Golden, Esq., Stroock Stroock & Lavan, 7 Hanover Square, New York, New York 10004, (iii) the Office of the United States Trustee, John D. McLaughlin, Esq., 601 Walnut Street, Curtis Center, Suite 950 West, Philadelphia, Pennsylvania 19106, (iv) Marcia L. Goldstein, Esq., Weil, Gotshal & Manges, 767 Fifth Avenue, New York, New York 10153, counsel for the holders of the Old Credit Facilities Secured Claims; and (v) Douglas Davis Esq., Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York 10005 counsel for the holders of the Old Senior Notes Secured Claims, on or before May 8, 1996 at 4:30 p.m. (Eastern Daylight Time). Only those objections that are timely filed and received will be considered by the Court.

Holders of 9% Convertible Subordinated Debentures of Anacomp International N.V. may obtain a copy of the Disclosure Statement, the Plan, the applicable ballots and certain related documents upon presentation of their original debentures at one of the following locations:

Cedel S.A.
67 Bolgrande
Duchesse Charlotte
L-1010 Luxembourg
011-352-4499 2210

Euroclear
c/o Morgan Guaranty Trust Company of New York
Boulevard E
Jacqmain 151
B-1210 Brussels Belgium
011-322-224-2613

Dated: March 28, 1996
CADWALADER, WICKERSHAM & TAFT
Barry J. Dichter
100 Maiden Lane
New York, New York 10038
(212) 504-6000
YOUNG, CONAWAY, STARGATT & TAYLOR
Laura Davis Jones (No. 2436)
11th Floor-Rodney Square North
P.O. Box 391
Wilmington, Delaware 19899-0391
(302) 571-6642

CONTRACTS & TENDERS

INVITATION FOR BIDS (IFB)

Date of Issuance of Invitation: 15th April 1996
Loan No: 3597
IFB No: 2649/VB/96

1. The Government of the Republic of Hungary has received a loan from the World Bank in various currencies towards the cost of Health Services and Management Project and it is intended that a part of the proceeds of this loan will be applied to eligible payments under the contract for Procurement of 12 (twelve) pcs special respirators used after cardiovascular surgery.
2. The NOVO-TRADING Commercial Ltd., acting on behalf of the Ministry of Welfare now invites sealed bids from eligible Bidders for the supply of special respirators used after cardiovascular surgery and perform the related incidental services.
3. Interested eligible Bidders may obtain further information from and inspect the Bidding Documents at the office of:

   NOVO-TRADING Commercial Ltd., H-1136 Budapest, Hollan E. u 24-26
   Phone: (36-1)-153-0022 Fax: (36-1)-153-0605
4. A complete set of Bidding Documents may be purchased by an interested eligible Bidder on the submission of a written application to the above and upon payment of a non-refundable fee of USD 120,-. (one hundred and twenty USD only) Bidders resident in Hungary may purchase the above documents upon payment of HUF 17.000,- + VAT (seventeen-thousand HUF + VAT).
5. All bids must be accompanied by a security of USD 10.000,- and must be delivered to the above office on or before 10.00 am on the 15th July 1996.
6. Bids will be opened in the presence of Bidder's representatives who choose to attend at 11.00 am on the 15th July, 1996 at the Conference Room of NOVO-TRADING Commercial Ltd., H-1136 Budapest, Hoolán F.u. 24-26.

SINO LAND COMPANY LIMITED

(a company incorporated in Hong Kong with limited liability)

US$200,000,000 5% Convertible Bonds due 2001 ("Bonds")

NOTICE TO BONDHOLDERS

The Directors of Sino Land Company Limited ("the Company") on 28 March 1996 declared an interim dividend of HK$0.08 per share for the year ending 30 June 1996 to shareholders whose names appear on the register of members on 26 April 1996. This interim dividend is payable on 27 May 1996.

The register of members of the Company will be closed from 17 April 1996 to 26 April 1996 (both dates inclusive). Registered holders of existing Bonds who wish to exercise their conversion rights attaching to their Bonds so as to be entitled to the said interim dividend should lodge the properly completed and signed conversion forms together with the Bond certificates with their Agent so as to reach the Company before 4:00 p.m. (Hong Kong time) on 26 April 1996.

By Order of the Board
Eric Ip Sai Kwong
Secretary
Hong Kong

11 April 1996

صكنا من الاهل

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

	Apr 10	Apr 9	Apr 8	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	15981.13	15896.43	18161.56	31/1	15920.81	19/3
Australia							
All Ordinaries(1/1/80)	2225.4	2221.0	(c)	2321.40	4/3	2107.80	11/3
All Mining(1/1/80)	1057.4	1043.6	(c)	1089.30	4/3	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	373.46	369.57	(c)	385.64	31/1	362.78	2/1
Traded Index(2/1/91)	1072.11	1061.34	(c)	1094.98	7/2	976.27	2/1
Belgium							
BEL20(1/1/91)	1696.62	1698.85	(c)	1766.71	7/3	1574.90	2/1
Brazil							
Bovespa(29/12/83)	(u)	46695.0	46537.0	54160.00	2/2	43901.80	2/1
Canada							
Metals Minls♦(1975)	(u)	5341.88	5279.07	5483.62	19/3	4687.47	16/1
Composite♦(1975)	(u)	5007.29	5004.02	5058.69	14/2	4739.70	15/1
Portfolio§§(4/1/83)	(u)	2435.43	2438.59	2486.57	8/2	2327.39	12/1
Chile							
IGPA Gen¥(31/12/80)	(u)	5223.06	5215.28	5804.93	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	392.06	396.44	(c)	392.06	10/4	369.49	3/1
Finland							
HEX General(28/12/90)	1832.91	1794.29	(c)	1897.16	19/3	1651.67	10/1
France							
SBF 250(31/12/90)	1420.1	1412.10	(c)	1420.10	10/4	1258.15	2/1
CAC 40(31/12/87)	2093.94	2081.71	(c)	2093.94	10/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	897.54	887.12	(c)	897.54	10/4	818.58	2/1
Commerzbank(1/12/53)	2584.7	2562.2	(c)	2584.70	10/4	2378.20	2/1
DAX‡(30/12/87)	2530.02	2503.26	(c)	2530.02	10/4	2284.86	2/1
Greece							
Athens SE(31/12/80)	951.72	947.81	962.41	1017.96	4/3	901.14	3/1
Hong Kong							
Hang Seng(31/7/64)	11077.55	11107.37	(c)	11594.99	15/2	10204.87	2/1
India							
BSE Sens.(1979)	3469.94	3485.63	3465.75	3881.00	14/2	2828.66	25/1
Indonesia							
Jakarta Comp.(10/8/82)	603.93	597.35	597.64	605.66	4/4	512.49	2/1
Ireland							
ISEQ Overall(4/1/88)	2421.97	2414.98	(c)	2423.88	3/4	2234.81	2/1
Italy							
Banca Comm Ital(1972)	607.48	593.89	(c)	638.25	9/2	572.21	27/3
MIB General(2/1/95)	1030.0	1007.0	(c)	1062.00	9/2	970.88	27/3
Japan							
Nikkei 225(16/5/49)	21791.70	21744.17	21424.24	21791.70	10/4	19734.70	13/3
Nikkei 300(1/10/82)	310.12	309.42	305.67	310.12	10/4	284.48	11/3
Topix(4/1/68)	1669.71	1664.98	1645.12	1669.71	10/4	1524.12	13/3
2nd Section(4/1/68)	2150.18	2133.60	2108.22	2150.18	10/4	1892.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1151.74	1133.90	1134.83	1164.49	28/3	988.16	2/1
Mexico							
IPC(Nov 1978)	(u)	3008.49	3020.05	3113.27	1/4	2738.98	8/3
Netherland							
CBS TtlRtnGen(End 83)	602.8	594.9	(c)	602.80	10/4	539.50	2/1
CBS All Shr(End 83)	364.5	359.8	(c)	364.50	10/4	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2136.65	2127.78	(c)	2203.86	4/1	2044.71	24/1
Norway							
Oslo SE(Ind)(2/1/83)	1357.86	1340.22	(c)	1357.86	10/4	1269.66	30/1
Philippines							
Manila Comp(2/1/85)	2894.42	(c)	(u)	2894.42	10/4	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1776.52	1778.02†	(c)	1784.25	1/4	1662.81	2/1
Singapore							
SES All-S'pore(2/4/75)	582.97	581.13	577.17	610.37	5/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	1774.8¥	1784.9	(c)	1917.98	7/2	1248.40	2/1
JSE Ind.(28/9/78)	8085.3¥	8142.4	(c)	8739.38	25/1	8008.40	2/1
South Korea							
KoreaCompEx"(4/1/80)	889.17	889.62	877.03	890.88	5/2	838.67	13/3
Spain							
Madrid SE(30/12/85)	348.67	344.59	341.42	348.67	10/4	323.78	11/1
Sweden							
AffarsvardenGen(1/2/37)	1864.2	1863.3	(c)	1927.09	19/3	1708.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1733.03	1728.04	(c)	1784.95	27/3	1618.19	17/1
SBC General(1/4/87)	1229.78	1228.11	(c)	1250.57	25/3	1114.47	26/1
Taiwan							
WeightedPr."(30/6/66)	5768.03	5589.72	5599.80	5768.03	10/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1337.21	1335.67	(c)	1415.84	9/2	1247.79	13/3
Turkey							
Istanbul Comp.(Jan 1986)	71018.3	70418.7	72088.8	72086.80	8/4	38779.30	2/1
WORLD							
MS Capital Intl$(1/1/70)	759.7*	759.5	761.3	768.40	5/4	728.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1643.23	1632.99	(c)	1643.23	10/4	1504.40	11/1
Euro Top-100(26/6/90)	1428.28	1419.89	1417.39	1428.28	10/4	1333.81	11/1
HSBC JC Drgn(31/12/88)	(u)	378.13	378.06	382.32	19/2	[illegible]	2/1
ING Brngs Emrg(7/1/92)	157.21	156.26	157.38	162.72	5/2	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index) (Apr 4)							
Apr	2097.0	2093.0	+4.0	2103.0	2080.0	16,962	34,302
May	2086.0	2092.5	+3.5	2088.5	2073.0	437	3,980
DAX							
Mar	2534.0	2532.0	+18.0	2537.5	2538.5	17,518	-
Jun	2554.0	2551.5	+17.5	2554.0	2543.0	160	-
OMX							
Apr	1462.0	1453.00	+1.00	1473.00	1451.25	4,638	16,351
May	1452.0	1448.00	+1.00	1460.25	1448.00	823	1,257
SOFFEX							
Apr	3602.0	3598.0	+19.0	3612.5	3591.5	3,465	21,473
May	3590.0	3584.5	+25.0	3590.0	3590.0	28	780

* Sat Apr 6: Taiwan Weighted Price 5581.13; Korea Comp Ex 878.85. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Apr 10 - 2525.58 +14.79

US INDICES

Dow Jones	Apr 9	Apr 8	Apr 4	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5560.41	5594.37	5682.88	5689.74 (3/4)	5032.94 (10/1)	5689.74 (3/4/96)	41.22 (2/7/32)
Home Bonds	102.39	102.39	103.08	106.09 (14/2)	102.39 (8/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2171.80	2167.94	2205.88	2215.21 (19/3)	1882.71 (18/1)	2215.21 (19/3/96)	12.32 (8/7/32)
Utilities	209.89	208.01	213.25	234.09 (12/2)	208.01 (8/4)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5644.68 (5624.71) Low 5530.06 (5518.14) (Theoretical♦)
Day's high 5617.85 (5576.80) Low 5550.29 (5542.34) (Actual♦)

Standard and Poors	Apr 9	Apr 8	Apr 4	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	642.19	644.24	655.86	661.45 (12/2)	598.48 (10/1)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials¥	761.59	763.74	774.99	778.23 (22/2)	702.07 (15/1)	778.23 (22/2/96)	3.62 (21/6/32)
Financial	85.40	86.04	87.86	88.58 (5/3)	58.67 (10/1)	88.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	345.13	345.65	351.92	351.92 (4/4)	321.41 (10/1)	351.92 (4/4/96)	4.46 (25/4/42)
Amex Mkt Val	572.71	570.48	577.10	577.10 (4/4)	529.05 (18/1)	577.10 (4/4/96)	29.31 (9/12/72)
NASDAQ Comp	1109.15	1105.85	1118.21	1118.21 (4/4)	988.57 (15/1)	1118.21 (4/4/96)	54.87 (31/10/72)

■ RATIOS

	Apr 5	Mar 29	Mar 22	Year ago
Dow Jones Ind. Div. Yield	2.11	2.15	2.13	2.61
	Apr 3	Mar 27	Mar 20	Year ago
S & P Ind. Div. yield	1.86	1.87	1.87	2.26
S & P Ind. P/E ratio	21.43	21.21	21.26	18.11

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Lucent Tech	7,485,800	32¼	1⅛
Federal Natl	7,457,700	31	-1⅞
Micron Tech	6,076,000	32⅝	-¾
AT & T	4,776,900	60⅛	----
Ford Motor	3,841,600	36⅝	+⅛
Shell Trans	3,804,200	80⅝	+1⅛
Bay Network	3,387,300	25⅝	+⅛
Corn States	3,088,800	41	-⅝
WMX Tech	2,935,600	33⅛	+¼
Barrick Gold	2,885,300	31	-¾

■ TRADING ACTIVITY

● Volume (million)	Apr 9	Apr 8	Apr 4
New York SE	423.762	414.920	375.308
Amex	21.403	20.721	22.929
NASDAQ	574.012	528.968	516.129
NYSE			
Issues Traded	3,122	3,127	3,083
Rises	1,405	326	1,052
Falls	977	2,368	1,186
Unchanged	740	433	845
New Highs	183	24	147
New Lows	15	79	13

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	644.80	643.90	-1.10	644.30	643.90	67,869	170,873
Sep	649.70	649.50	-0.95	649.70	649.50	200	4,506

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	21840.0	21840.0	-40.0	21950.0	21790.0	16,488	257,850
Sep	21810.0	21950.0	+50.0	21950.0	21810.0	13	13,011

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

FT FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, April 10, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Stl Corp	14.9m	372	+1
Shinko Electric	12.5m	1100	+10
NKK Corp	10.9m	322	+2
Mitsui E & S Bld	9.7m	339	+4
Ashimori Ind	9.4m	819	+90
Kawasaki Steel	9.3m	394	+12
Toshiba Corp	8.4m	828	-4
Sumitomo Mtl Ind	7.8m	335	+4
Mitsubishi Hvy	7.8m	938	+7
Kanto Spl Steel	7.3m	900	+20

4 pm close April 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22 1/8	19 1/8	AAR	0.48	2.5	21	311	19 5/8	19 1/2	19 1/2	
44 3/4	36 3/8	AMP	1.00	2.4	21	4958	42	41 3/8	41 1/2	-3/8
93 3/8	68	AMR			35	6984	90 5/8	87 1/2	87 1/2	-2
50 1/2	37 1/8	ASA	2.00	4.3	30	749	46 1/4	45 7/8	46 5/8	+1/8
44 3/4	38 1/8	AbbtL	0.96	2.3	18	13568	42 1/4	40 7/8	41 1/4	-1 1/8
17 1/4	13 3/8	Abitibi Pr	0.40	2.9	7	1929	13 7/8	13 5/8	13 3/4	+1/8
35 1/2	27	ABM Ind	0.70	2.1	17	32	34 1/8	34	34	
15 1/2	10 7/8	Acptncein			53	382	15 1/8	14 3/4	14 7/8	-3/8
50 3/8	37 3/4	ACE Ltd	0.56	1.2	11	1166	46 1/8	45 3/4	45 7/8	-1/8
9 7/8	9 1/8	ACM Gvt In x	0.90	9.2	8	71	9 3/4	9 5/8	9 3/4	+1/8
7 7/8	6 7/8	ACM GvOpp x	0.66	9.8		180	7	d6 3/4	6 3/4	-1/8
7 1/4	6 1/2	ACM Gvt Sp x	0.75	11.5		224	6 5/8	d6 1/2	6 1/2	
9 1/8	8 1/4	ACM Gvt Se x	0.90	10.4		363	8 3/4	8 5/8	8 5/8	
9 1/2	8 7/8	ACM Mun x	0.90	9.7		154	9 3/8	9 1/4	9 1/4	-1/8
31 1/4	17 1/4	AcmeClv	0.52	1.7	7	375	30 5/8	30 1/2	30 1/2	
9 3/8	6 1/8	Acme Elect			53	42	6 3/8	6 1/4	6 3/8	
31 3/4	27 3/4	Acordia	0.72	2.3	16	4	31 1/4	31 1/4	31 1/4	-1/8
15 7/8	12	Acuson			45	107	14 5/8	14 1/2	14 1/2	-1/8
19 1/2	16 7/8	Adams Exp	0.36	1.9	0	256	19	18 3/4	18 7/8	
21 1/4	16 1/8	AdvMic			6	12169	18 1/8	17 1/4	17 1/2	-1/8
10 1/4	8 1/2	Advest Grp	0.16	1.6	9	72	9 7/8	9 3/4	9 3/4	
26 1/8	9 1/8	Advo Inc	0.10	1.0	10	279	9 7/8	9 5/8	9 7/8	+1/8
49 3/8	41 1/8	Aegon	1.23	2.5	15	37	u49 3/8	49	49 3/8	+3/8
5 1/2	3 1/2	Aeroflx			8	1001	4 7/8	4 3/4	4 3/4	-1/8
76 1/8	66 3/8	AetnaL	2.76	3.9	33	8801	71 7/8	69 3/8	70	-1 3/4
33	28 3/4	Aflac	0.40	1.3	13	1876	32 3/4	30 7/8	30 7/8	-1 3/4
20 1/2	17 1/2	AGL Res	1.06	5.8	17	477	18 1/4	17 7/8	18 1/8	
26 3/4	21 1/4	Ahmanson	0.88	3.8	7	4407	23 1/2	23	23 1/8	-1/8
58	50 3/8	AirPrC x	1.04	1.9	16	1960	56	54 3/8	54 5/8	-1/8
28 1/2	23 1/2	Airbrne Frt	0.30	1.2	23	3496	25	d23 1/2	24 1/2	+1/2
42 1/2	30 7/8	Airgas Inc			36	936	42 1/4	41 1/2	42 1/8	+1/4

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4 pm close April 10

NYSE COMPOSITE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
27 3/8	18 5/8	Schwitz(C)	0.16	0.7	24	5092	24 1/2	23 3/8	23 1/2	-1
28 7/8	22 3/4	SchwMaud			14	329	27	26 1/2	26 3/4	-1/4
19 1/2	13 1/8	SciAtl	0.06	0.3	38	2331	17 7/8	17 1/2	17 1/2	-1/4
18 7/8	17	Scotsman x	0.10	0.6	11	57	18 1/8	18	18 1/8	+1/4
43 1/2	38 1/8	Scripps	0.52	1.3	24	594	42	41	41 1/8	-7/8
18 1/8	14 1/2	ScudderNewF	0.02	0.1		299	16	15 3/4	15 7/8	-1/8
11 7/8	11	ScudderNEurF	0.16	1.4		172	u11 7/8	11 3/4	11 3/4	-1/8
18	16	SeaCoB	0.70	4.0	2	27	17 3/8	17 3/8	17 3/8	
16	15 1/8	SeaC1.4625	1.46	9.7		23	15 1/2	d15 1/8	15 1/8	-1/8
67 3/4	44 3/4	S'gate			11	6436	61 1/8	59 1/4	59 5/8	-1
38 5/8	31 3/4	Seagrm	0.60	1.9	21	8184	32 1/4	d31 3/4	31 3/4	-1/2
23 1/8	17 1/8	Seagull En			119	3006	u23 1/8	21 3/4	23	+1
35 1/4	26	Sealed Air			26	367	34	33 1/8	33 3/4	-1/4
51 7/8	38 1/4	SearsR	0.92	2.0	12	5692	48 1/4	46 1/4	46 1/4	-1 7/8
22 1/4	19 1/4	SecCapStl	1.24	5.8	25	2019	21 5/8	21 3/8	21 1/2	
13	12	Seligm Sel	0.84	7.0		566	12 1/4	d12	12	-1/4
23 3/4	13 5/8	Sensormat	0.22	1.0	80	1790	22 7/8	22	22 5/8	+1/8
35 5/8	20 1/2	SequaA	0.60	1.7	60	61	35	34 1/4	34 3/4	+1/2
41 5/8	38	SequaB	0.50	1.2	71	20	41	41	41	
52	38 7/8	ServCp	0.48	1.0	27	2814	49 3/4	49 1/4	49 1/2	-1/4
33 1/2	28 1/8	Svmstr	0.96	3.0	14	115	32	31 1/2	31 1/2	-1/4
6	4 1/2	ServMerch			10	2981	5 1/2	5 3/8	5 3/8	
41 1/2	28 1/2	SGSThm			9	7384	37 7/8	36 1/8	37 3/4	+1 1/2
16 1/8	10 5/8	Shaw Ind	0.30	2.7	23	3788	11 5/8	11	11 1/4	-1/4
12 7/8	10 5/8	Shelby Wil	0.28	2.3	16	31	12 1/2	12 3/8	12 3/8	
83 1/2	76 5/8	ShellTr x	3.30	4.1	17	15074	81 1/8	80 5/8	80 3/4	+1/8
45 7/8	39	SherW	0.70	1.6	18	1126	43 5/8	42 3/4	42 7/8	-1/2
10 1/4	7 7/8	Shoneys			11	2066	10 1/8	9 3/4	10 1/8	+1/4
32	21	Showboat	0.10	0.3	35	947	30 1/8	29 7/8	30 1/8	+1/4
26 1/2	22 1/4	Sierra Pac	1.18	4.8	12	75	24 3/4	24 1/2	24 5/8	-1/8
8	6 1/4	SignalApp			1	28	6 3/4	6 1/2	6 5/8	-1/4
27 1/4	21 3/8	Signet Bnk	0.80	3.3	10	1170	25 1/8	24 1/4	24 1/4	-1
30 3/8	21 1/4	SiliconGr			19	10328	25 1/4	24 7/8	25	-1/4
8 3/4	7 3/8	Sizeler	1.12	14.0	25	35	8 1/8	8	8	-1/8
4 1/4	2 5/8	Sizzler	0.16	5.3	33	432	3 1/8	3	3	-1/8
24 7/8	19 3/4	Skyline	0.60	2.5	14	281	24 1/4	24	24	-1/8
8 7/8	6 5/8	SL Inds	0.06	0.8	10	106	7 1/4	7 1/8	7 1/8	+1/8
11/16	1/8	SmithCorp	0.10	26.7	0	432	1/2	3/8	3/8	-1/8
26 7/8	19 3/8	SmithIn			22	5344	u26 7/8	26 1/8	26 3/4	-1/8
57 3/8	50 3/8	SKBchA	1.28	2.4	17	193	52 1/2	51	51	-1 3/4
58 1/4	50 3/8	SKBEqU	1.41	2.8	21	5334	52 7/8	51 1/8	51 1/8	-1 5/8
31	23 1/4	Smiths Fd	0.60	2.5	14	567	24 1/2	24 1/4	24 1/4	

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NASDAQ NATIONAL MARKET

4 pm close April 10

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AMEX COMPOSITE PRICES

4 pm close April 10

AMERICA

US technology shares shake off worries

Wall Street

Technology shares managed to shake off a new sign of weak demand for semiconductors and post gains in midday trading while most other sectors were flat, *writes Lisa Bransten in New York.*

At 1pm, the Dow Jones Industrial Average was up 5.78 at 5,566.19, while the Standard & Poor's 500 added 0.40 at 642.59 and the American Stock Exchange composite rose 0.56 to 573.27. NYSE volume was 210m shares.

The Nasdaq composite climbed 7.49 points to 1,116.64 in spite of a drop in the semiconductor industry's key measure of demand. The Semiconductor Industry Association said that its book-to-bill ratio – the ratio of products billed to products shipped – fell for a fifth consecutive month to 0.8 in March.

But while the figures are new, investors have been worried about declining semiconductor demand for several months, so much of that bad news had already been incorporated into the price of most semiconductor shares.

Micron Technology, for example, has fallen from a peak of $86 in September to $32⅞ at Tuesday's close. Yesterday the shares gained $1¼, or 4 per cent at $34⅛.

Motorola, which also makes chips, jumped $4¼ or 8 per cent to $55⅞ after the company reported stronger than expected earnings of 63 cents a share. Analysts had forecast earnings nearer to 59 cents a share. The company said, however, that slowing demand for semiconductors would be one factor that could put pressure on earnings over the next few quarters.

Several computer companies were also stronger yesterday. IBM added $1⅛ at $119¼, Hewlett Packard was $2 stronger at $98⅝ and Gateway 2000 hardened $1¼ to $33⅞.

Netscape Communications got a boost from news that it had formed a joint venture with GE Information Services – a unit of General Electric – to offer Internet software to businesses. In early trading, shares in Netscape were $4¼ stronger at $53½, while Dell Computers – which had jumped more than $5 in the previous two sessions – gave back $⅞ at $41.

Shares in Bally Entertainment added $⅞ at $22⅜ on continued hopes that the company might be acquired by ITT for as much as $26 a share. Press reports yesterday, however, suggested that negotiations between the two companies were foundering although they had not broken off altogether. ITT declined $1⅛ to $60⅝.

Canada

Toronto was firm in midsession trade, led by strength in oils and base metals issues, and the TSE 300 composite index was standing 16.61 higher by noon at 5,023.90 in heavy volume of 64.5m shares.

Toronto-Dominion Bank relinquished C$½ at C$23⅛, heading the most actives list after saying it would acquire Waterhouse Investor Services for C$715m.

EUROPE

Continent witnesses a flurry of records

Plenty of records were set in continental Europe yesterday, with **FRANKFURT**, for instance, lifted by dollar strength which brought the Dax index to an all-time high, gaining 26.76 or 1.1 per cent at 2,530.02. However, the market came off the boil later and the Ibis session saw the index finish at 2,525.59.

The strong dollar helped export-oriented stocks, particularly the car makers, such as Volkswagen, up DM9.80 at DM536.80, and Daimler-Benz, DM19.50 ahead at DM820, with respective closes in the Ibis of DM534.90 and DM817.

PARIS moved higher during the day, although the CAC-40 index lost some of its early strength to close 12.23 ahead at 2,093.94. Turnover came to FFr5.2bn.

Expectations that the Bank of France could trim interest rates at today's policy council meeting was a contributing factor to the day's advance.

Eurotunnel was a significant feature as the stock rose for the second consecutive session in reaction to good March traffic figures for the shuttle vehicle service, and suggestions that there had been a good take-up of demand during the Easter holiday. The shares firmed 5 centimes to FFr5.30.

Suez lost FFr2.60 to FFr214.40 after announcing 1995 figures broadly in line with consensus estimates. Analysts said, however, there had been disappointment that the group had not made an announcement regarding the possible sale of its Indosuez investment banking division. The stock had been supported in recent weeks on speculation that the bank might be sold.

ZURICH saw scepticism overcome the enthusiasm that had greeted speculation about a merger between CS Holding and UBS on Tuesday, and the shares of both suffered as investors turned their attention to SBC.

Profit-taking left CS Holding SFr1.25 down at SFr113.75 and UBS SFr24 lower at SFr1,293 as analysts dismissed the likelihood of a merger in the near term, citing domestic anti-trust concerns, differences in corporate culture, and signs that UBS was actively opposing any link.

SBC, by contrast, picked up SFr6 to SFr437 as a number of analysts recommended investors to switch.

The broader market was firmer, but closed off its best, with the SMI index up 7.1 to 3,601.5.

Ciba rose SFr9 to SFr1,429 and Sandoz was SFr18 higher at SFr1,344, but Roche certificates eased SFr20 to SFr9,760.

Swissair jumped SFr23 to SFr1,316 on better than expected results from Crossair, its regional airline subsidiary.

MILAN remained on the upward track as investors continued to take a more optimistic view of the outlook for the April 21 election and as Morgan Stanley, the US investment bank, reiterated its positive view on the market.

The Comit index rose 13.59 to 607.48, while the real-time Mibtel index added 236 at 9,744.

Mr Richard Davidson at Morgan Stanley said that pessimism over the outcome of the election had been overdone and that any surprises were likely to be positive.

Most blue chips were higher, led by a L243 rise to L6,148 in Eni after the company announced, late on Tuesday, a L215 dividend payable on ordinary shares for 1995.

Fiat picked up L138 to L5,819 as the group reported that its March car sales in Europe rose by 19 per cent.

HELSINKI put on 2.2 per cent in a lively session which saw cyclical shares supported by a firm dollar and as forestries picked up on reports that pulp prices may have bottomed out. The Hex index rose 38.62 to 1,832.91.

Tampella, the engineering group, surged 31.9 per cent in immediate response to news that Sweden's Svedala had offered a merger, a move regarded by some analysts as a hostile takeover bid.

Tampella, which has been selling off loss-making divisions after making deep losses in the early 1990s, jumped to a high of FM9.10 before easing back to finish a net FM1.80 ahead at FM8.70.

MADRID was at a year's high, supported by a firm bond market and peseta, and the general index added 2.08 at 346.67. Construction stocks gained ground on selective demand. Dragados rose Pta15 to Pta1,765, Cubiertas Pta150 to Pta8,350 and FCC Pta100 to Pta11,170.

OSLO attained an all-time high in heavy trading as sentiment was encouraged by a rise in oil prices, a lower than expected March inflation figure and falling interest rates.

The Total index saw a session's high of 785.95 before losing ground to close 9.23 up at 785.26. Kvaerner B climbed NKr7 to NKr227 after the group announced a new oilfield contract worth NKr435m. Norsk Hydro, which said it was finalising plans to recover an additional 560m barrels of oil from the Troll field, put on NKr5.50 at NKr290.

AMSTERDAM soared to a record high, the AEX index advancing past the 540 level with steady conviction. The index rose 7.79 to 544.77.

In **STOCKHOLM**, Svedala dropped SKr10 to SKr210 as the Affärsvärlden index edged 0.9 higher to 1,864.2.

Astra B fell SKr13 to SKr292 on news of cuts in some Losec prices in Sweden, and poor sentiment towards pharmaceutical shares in the US.

Written and edited by Michael Morgan and John Pitt

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Apr 10 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1644.31	1646.79	1645.46	1645.22	1646.46	1645.62	1643.36	1643.23
FT-SE Eurotrack 200	1703.35	1705.61	1704.49	1704.42	1705.25	1703.76	1700.14	1701.29

	Apr 9	Apr 4	Apr 3	Apr 2	Apr 1
FT-SE Eurotrack 100	1632.99	1629.39	1625.48	1630.28	1626.48
FT-SE Eurotrack 200	1694.72	1693.77	1685.33	1689.81	1688.62

Base value 1000 (26/10/90); High/day: 100 - 1647.38; 200 - 1706.31 Low/day: 100 - 1643.02 200 - 1699.45. † Partial

Rand leads S African stocks lower

Equities continued to retreat in nervous trade and finished near the session's lowest levels as the weak rand, which sank to fresh lows in the afternoon, upset sentiment. Dealers said shares were being marked down in thin dealings as many investors held back amid the uncertain outlook.

The overall index closed 35.4 weaker at 6,653.9, industrials dropped 56.9 to 8,085.3 and the gold shares index slipped 10.1 to 1,774.8.

Lonrho bucked the trend and ended 35 cents firmer at a new high of R13.70. The heavy trading in Lonrho follows the acquisition last month by Anglo American Corporation of the 6.9 per cent shareholding previously held by its founder, Mr Tiny Rowland, writes Mark Ashhurst. Anglo is also seeking to secure an option on the 18.5 per cent personal stake held by Mr Dieter Bock, chief executive, for which it already has a right of first refusal.

Mexico City up 1.4% at midday

Mexico City drove ahead in midsession trading, with the IPC index of the 37 leading shares gaining 40.85 or 1.4 per cent at 3,050.34. Traders said that the market was supported by news of a smaller than expected fall in January industrial activity and a surprising burst of strength in the peso.

Dealers said most investors were ignoring movements on Wall Street for the time being. The expectation of second-quarter recovery, good company reports and calmness in the foreign exchange market were moving equity prices.

SAO PAULO was firmer at the opening and by midday the Bovespa index had risen 359 points to 48,924. Dealers said that investors were pleased that congress had finally approved the 1996 federal budget, and could concentrate on social security reforms.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Apr. 5 1996	% Change over week	% Change on Dec '95	Local currency terms Apr. 5 1996	% Change over week	% Change on Dec '95
Latin America	(247)	494.82	+0.2	+4.9			
Argentina	(31)	612.23	+0.7	+1.4	498,219.66	+0.7	+1.4
Brazil	(68)	335.22	+0.1	+9.8	1,237.79	+0.0	+11.5
Chile	(43)	671.31	-1.7	-10.3	1,102.61	-2.0	-9.6
Colombia[1]	(15)	582.11	-0.1	-2.7	1,081.73	+0.2	+3.1
Mexico	(65)	510.67	+0.9	+12.7	1,656.54	+0.6	+10.0
Peru[2]	(20)	202.48	+0.6	+2.8	291.41	+0.6	+4.9
Venezuela[3]	(5)	421.53	+11.1	+26.1	4,630.59	+2.6	+77.4
Asia	(631)	259.94	+2.2	+12.0			
China[4]	(23)	51.92	+3.3	+14.5	55.11	+3.3	+14.6
South Korea[5]	(145)	124.10	+1.2	-1.5	127.24	+0.9	-0.9
Philippines	(35)	283.35	+4.0	+9.2	357.96	+3.9	+8.8
Taiwan, China[6]	(83)	120.46	+8.3	+6.8	122.95	+8.0	+6.4
India[7]	(76)	95.39	+3.7	+18.7	115.60	+3.7	+15.2
Indonesia[8]	(44)	125.34	+3.9	+14.3	158.70	+3.6	+16.5
Malaysia	(123)	315.22	+0.4	+16.2	294.55	+0.5	+15.9
Pakistan	(25)	257.60	-1.5	+6.2	405.65	-1.3	+7.6
Sri Lanka[10]	(5)	121.38	-0.7	+16.6	142.18	-0.7	+17.6
Thailand	(72)	388.60	+3.9	+3.4	389.62	+4.0	+3.6
Euro/Mid East	(238)	148.08	-1.7	+4.6			
Greece	(17)	255.70	-2.6	+5.9	417.21	-2.6	+7.8
Hungary[11]	(8)	144.65	-0.8	+47.0	250.80	-0.3	+55.0
Jordan	(8)	166.66	-7.4	-9.8	248.79	-7.4	-9.7
Poland	(22)	625.61	+3.4	+46.7	1,021.09	+3.8	+54.2
Portugal	(26)	125.29	-0.1	+8.2	131.50	+0.0	+10.6
South Africa[11]	(63)	243.06	-4.4	-5.8	205.90	-1.4	+6.0
Turkey[12]	(54)	172.25	+10.2	+64.8	5,632.04	+12.1	+95.1
Zimbabwe	(5)	336.96	+2.1	+22.7	489.29	+3.8	+29.8
Composite	(1116)	297.04	+0.6	+7.7			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted ... (6)Sep 28 1990 (7)Nov 6 1992 (8)Sep 28 1990 (9)Mar 1 1991 (10) ... (12)Dec 31 1992 (13)Aug 2 1993 (14)Nov 2 1993

The first quarter of 1996 was good for the Latin American equity markets, notes ING Barings in its latest Latin American strategy publication. Mr Tim Love says, however, that US short-term rates are casting a shadow over the region, while there is some evidence that the flow of mutual funds to the Latin American markets has begun to slow down after January's $30bn and February's $21bn. Nevertheless, Mr Love, who published his views prior to the release of the US March employment data and Wall Street's sharp fall on Monday, says that with a continuation of liquidity and some stability in US short rates, "Latin American markets can now concentrate on domestic fundamentals and valuations". ING Barings maintains a modest, long term overweight position in Brazil, "despite the immense volatility risk from the legislative changes in this highly charged period. Over the quarter, Brazil has been one of the best performing markets in the region, and the most dangerous to underweight."

ASIA PACIFIC

Strong $ propels Nikkei to four-year high

Tokyo

Profit-taking eroded early gains, but the rise in the dollar above the Y108 level encouraged buying by domestic institutions, lifting the Nikkei average to a four-year high, *writes Emiko Terazono in Tokyo.*

The 225-share index added 47.53 at 21,791.70 after moving between 21,772.71 and 21,870.68. The closing level was the highest since February 10, 1992, when the Nikkei finished at 21,819.52.

The dollar's rise above Y108 prompted buying in the futures market, which triggered active arbitrage purchasing. Domestic investors and foreign fund managers bought large-capital blue chips, while individual investors sought speculative shares. However, profit-taking depressed high-technology and semiconductor issues, while leading shipping companies were sold.

Volume was 660m shares, against 613m. The Topix index of all first section stocks rose 4.73 to 1,669.71 and the Nikkei 300 firmed 0.70 to 310.12. Gainers led losers by 624 to 446, with 159 issues unchanged.

In London the ISE/Nikkei 50 index put on 3.44 at 1,450.82.

A fall in the book-to-bill ratio which measures the supply and demand balance of semiconductors in the US market depressed high-technology stocks. Microchip makers were weak, with NEC down Y10 to Y1,260 and Fujitsu losing Y10 to Y1,030. Advantest, a semiconductor equipment manufacturer, declined Y80 to Y5,120 and Tokyo Electron shed Y30 to Y3,840.

Mining shares were higher on a recovery in gold futures prices. Domestic institutions and individual investors bought Sumitomo Metal Mining, which rose Y30 to Y1,070, and Dowa Mining, Y13 ahead at Y559. Higher crude oil prices encouraged buying of oil refiners. Arabian Oil climbed Y90 to Y6,080 and Teikoku Oil jumped Y23 to Y769.

Large-capital steels and shipbuilders were bought by brokerage dealers and institutional investors. Nippon Steel, the most active issue of the day, rose Y1 to Y372 and NKK gained Y2 at Y322.

Speculative stocks were higher, with Shinko Electric appreciating Y10 to Y1,100 and Kanto Special Steel Y30 to Y900.

In Osaka, the OSE average moved up 109.48 to 23,132.04 in volume of 63.7m shares.

Roundup

Hopes of an improvement in relations between Taiwan and China, now that both sides have expressed a willingness to resume talks, helped **TAIPEI** to a 10-month high.

The market was also encouraged by the ratings that the Moody's Investors Service assigned to several big banks.

The weighted index climbed 178.31 or 3.2 per cent to 5,768.03, and the financials sector jumped 6.5 per cent.

Active buying intensified in late trade after Moody's said it had assigned long and short-term deposit ratings of A2 and Prime-1 to Taiwan's major state banks: First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank.

KUALA LUMPUR picked up 1.6 per cent on steady buying of blue chips by local and foreign institutions, and the composite index closed 17.84 higher at 1,151.74.

Telekom Malaysia led gains among the blue chips, ending 70 cents up at M$23.50.

Second board stocks continued to attract speculative interest, but construction issues closed off the day's highs after news that the Seventh Malaysia Plan would include construction projects worth M$200bn had triggered early buying.

SINGAPORE was spurred higher by bargain hunting in banks and properties and demand for Malaysian over the counter stocks as the Malaysian dollar firmed against the Singapore currency.

The Straits Times Industrial index finished 7.85 firmer at 2,389.98.

HONG KONG was weak for a third straight session and the Hang Seng index declined 29.82 to 11,077.55 in thin turnover of HK$4.3bn. Brokers said the cash market's tone was kept soft for most of the day by a sharp fall in index futures in the morning, mainly because they had overshot in a short squeeze late on Tuesday.

MANILA was lifted by hopes of good corporate earnings and continued encouragement from steady inflation data.

The composite index moved ahead 31.63 or 1.1 per cent to close at 2,994.42.

SYDNEY was dragged higher by technical factors which left the All Ordinaries index up 4.40 at 2,225.4.

SHANGHAI's hard currency B index was propelled ahead by demand for Shanghai Yaohua Pilkington Glass. The index picked up 0.444 to 50.017 as Yaohua Pilkington rose $0.050 or 5.5 per cent to $0.960.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY APRIL 9 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY APRIL 8 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (81)	191.96	0.5	194.39	136.80	155.08	169.11	-0.0	4.11	198.95	192.70	135.07	152.85	169.11	202.74	162.68	170.67
Austria (27)	180.80	-1.8	175.70	123.09	140.22	140.06	-0.8	1.61	184.06	178.27	124.96	141.40	141.22	199.28	168.11	187.66
Belgium (26)	208.51	-1.1	202.70	142.69	161.71	157.60	-0.1	4.14	210.72	204.10	143.06	161.89	157.73	215.81	184.81	187.75
Brazil (29)	149.60	-0.3	145.52	102.41	116.09	272.56	-0.1	1.61	150.19	145.47	101.97	115.39	272.68	170.25	109.87	116.97
Canada (100)	158.55	0.1	154.13	108.47	122.96	155.83	0.0	2.41	158.43	153.46	107.56	121.72	156.77	159.32	133.09	133.09
Denmark (33)	295.84	-1.1	287.59	202.39	229.44	231.75	-0.1	1.92	299.07	289.67	203.04	229.77	232.10	305.17	255.18	260.45
Finland (24)	174.47	-0.4	169.61	119.36	135.32	170.87	0.5	2.90	175.22	169.72	115.96	134.62	169.97	276.11	171.73	188.18
France (96)	195.67	-0.6	190.21	133.86	151.75	155.85	0.2	3.01	196.86	190.69	133.67	151.26	155.56	196.88	167.70	185.25
Germany (60)	172.65	-0.0	167.84	118.12	133.90	133.90	0.4	1.86	173.65	168.19	117.90	133.42	133.42	174.38	146.95	150.24
Hong Kong (55)	437.43	-0.1	425.24	299.26	339.25	434.28	-0.1	3.25	437.66	423.93	297.15	336.27	434.50	461.19	323.87	339.98
Ireland (16)	266.45	-0.5	259.02	182.29	206.65	238.59	-0.2	3.41	267.91	259.49	181.89	205.83	239.14	267.91	215.82	218.24
Italy (59)	73.87	0.8	71.81	50.54	57.29	96.51	1.3	2.11	73.28	70.98	49.75	56.30	95.41	82.71	67.21	68.60
Japan (480)	154.56	-0.1	150.25	105.74	119.87	105.74	0.7	0.72	154.70	149.84	105.03	118.86	105.03	164.83	137.75	151.63
Malaysia (107)	546.73	0.1	531.49	374.04	424.03	533.38	0.2	1.64	546.08	528.92	370.74	419.55	532.39	561.96	425.77	486.77
Mexico (19)	1180.93	-0.1	1147.91	807.84	915.81	9735.19	-0.4	1.43	1181.93	1144.78	802.43	908.06	9771.41	1237.14	791.99	949.68
Netherland (19)	289.06	-0.7	281.01	197.76	224.19	219.80	0.2	3.21	291.22	282.07	197.72	223.74	219.36	291.22	235.13	239.83
New Zealand (15)	81.49	-0.4	79.22	55.75	63.20	63.33	-0.3	4.34	81.85	79.29	55.57	62.89	63.60	85.49	76.26	78.94
Norway (33)	238.52	-0.3	232.16	163.38	185.22	209.37	0.6	2.50	239.43	231.90	162.55	183.95	208.10	243.79	213.52	218.23
Singapore (44)	437.95	1.0	425.74	299.62	339.66	284.02	1.1	1.34	433.60	419.99	294.38	333.13	280.80	465.21	355.81	360.17
South Africa (45)	365.33	-1.6	355.15	249.94	283.34	331.79	-0.1	2.54	371.12	359.45	251.96	285.13	331.98	437.76	338.91	352.62
Spain (37)	172.50	0.1	167.69	118.01	133.79	162.65	0.8	3.39	172.35	166.94	117.02	132.42	161.51	175.89	134.05	135.25
Sweden (46)	334.04	-0.9	324.73	228.53	259.07	331.95	0.1	2.40	337.05	326.46	228.83	258.95	331.64	352.28	241.23	243.05
Switzerland (39)	244.29	-1.5	237.47	167.12	189.46	182.58	-0.4	1.55	247.99	240.19	168.36	190.53	183.34	252.34	181.68	184.91
Thailand (46)	186.03	0.0	180.85	127.27	144.26	182.67	0.1	1.79	186.12	180.27	126.36	142.99	182.54	193.95	134.58	136.39
United Kingdom (204)	232.35	-0.3	225.88	158.96	180.21	225.88	0.0	4.05	233.15	225.82	158.29	179.13	225.82	235.50	206.28	208.83
USA (629)	261.89	-0.3	254.58	179.17	203.11	261.89	-0.3	2.21	262.68	254.42	178.34	201.81	262.68	269.11	206.41	206.89
Americas (775)	239.08	-0.3	232.42	163.56	185.42	200.92	-0.3	2.20	239.77	232.23	162.78	184.21	201.50	245.54	189.06	189.39
Europe (726)	207.86	-0.6	202.06	142.20	161.21	180.87	0.1	3.03	209.03	202.46	141.92	160.60	180.60	209.03	178.19	180.99
Nordic (135)	286.64	-0.8	278.65	196.10	222.30	249.13	0.2	2.40	288.94	279.86	196.17	221.99	248.73	297.48	231.64	233.46
Pacific Basin (830)	167.77	0.0	163.09	114.78	130.12	117.19	0.6	1.15	167.82	162.56	113.94	128.94	116.52	171.87	148.86	159.86
Euro-Pacific (1556)	184.37	-0.3	179.23	126.13	142.99	141.37	0.4	2.03	184.99	179.08	125.52	142.05	140.85	185.05	165.51	168.57
North America (729)	255.43	-0.3	248.31	174.75	198.10	254.71	-0.3	2.22	256.16	248.11	173.92	196.81	255.44	262.26	202.03	202.32
Europe Ex. UK (522)	189.47	-0.7	184.19	129.63	146.95	154.87	0.2	2.47	190.78	184.78	129.52	146.57	154.54	190.78	159.17	162.04
Pacific Ex. Japan (350)	290.26	0.2	282.17	198.57	225.11	251.49	0.7	2.95	289.62	280.52	196.63	222.51	251.18	293.58	237.71	241.00
World Ex. US (1756)	185.40	-0.3	180.33	126.84	143.73	145.49	0.3	2.04	185.95	180.11	126.25	142.86	[illegible]	186.17	167.36	180.05
World Ex. UK (2175)	206.47	-0.3	200.72	141.25	160.13	174.29	0.1	1.92	207.08	200.57	140.59	158.87	174.15	209.05	177.60	177.60
World Ex. So. Af. (2334)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1899)	238.96	-0.4	232.30	163.46	185.33	225.68	-0.1	2.62	239.83	232.29	162.83	184.26	225.93	243.36	196.03	197.35
The World Index (2379)	209.79	-0.3	202.97	142.84	161.93	179.99	0.1	2.11	209.41	202.83	142.17	160.89	179.88	211.20	180.34	180.34

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CONSTITUENT CHANGES WITH EFFECT 11/4/96: Deletion: ... Addition: ... Latest prices were unavailable for this edition.

هيكل من الاهل

RUSSIA

Campaigning for the middle ground

Chrystia Freeland assesses the conflicting forces and reputations at stake in an unprecedented electoral battle

On October 25, 1917, the day after the Bolsheviks seized power, share prices on the St Petersburg stock exchange held firm. Like rabbits caught in the headlights of history, most of Russia's aristocratic, multilingual, westernised elite could not quite believe that their country was in the grip of a revolution which would claim millions of human sacrifices and deform the lives of three generations.

Seven decades of brutal communist rule and the tumultuous political and economic upheavals of the past ten years have made Russia's new elite far less complacent. Just two *months ahead of* presidential elections which could return the communists to power, Russia is a country on tenterhooks.

Television anchormen and senior politicians casually predict that over the next few weeks there will be a coup in Moscow organised by President Boris Yeltsin's hardline cronies or a large terrorist attack within Russia launched by Chechen separatists. Equity prices are at a historic low, as the nouveaux riches keep their money in Swiss bank accounts as insurance against a possible communist revanche while red, Soviet-era, directors, emboldened by the shift in the political winds, ask sympathetic courts to re-nationalise their companies.

These jitters are provoked by the question which is looming over Russia today: will the communists win the June 16 presidential ballot? Although Mr Yeltsin has been steadily rising in the polls, the most recent survey showed that in a two-man race 37 per cent of voters were prepared to support Mr Gennady Zyuganov, the Communist leader and candidate of a broad left-wing coalition, against 29 per cent who said they would back the incumbent.

Even senior officials in the Yeltsin administration admit that the historical pendulum is swinging against them. As the victory of former communists in elections across eastern Europe suggests, the transition to a market economy is a wrenching social process which leaves voters angry and nostalgic for the past even in countries where, at least on paper, the standard of living has risen. Moreover, in Russia the anti-reform reaction could well be stronger than in eastern Europe, because so many Russians are poorer than they were in the dying days of communism. Poles elected a former communist president last year even after their reformers had delivered two years of the highest economic growth rates in Europe. By contrast, in Russia last year the economy continued to shrink and average incomes declined.

As Mr Nikolai Ryzhkov, former Soviet prime minister and a senior figure in the leftist bloc, argues: "The opposition's great advantage is that it is not responsible for what was done in the country over the past four or five years, but Yeltsin is. People's nostalgia is not for nothing and it is not only among the old. People say, yes, we were not rich, but we were not poor. People could live and eat and travel to visit their families."

The communists are powerful today because they have preserved a highly effective organisation which is able to channel this amorphous discontent into votes on election day. It was Lenin who first taught Russian communists the over-arching importance of a smoothly functioning party machine, and it is a lesson his heirs have not forgotten.

Paradoxically, the communists' muscular grass-roots organisation, built on the backs of thousands of Russian *babushkas*, means that, at least in opposition, the party which produced Stalin is today an avatar of democracy.

Mr Yeltsin's own law-enforcement agencies have caught over-zealous presidential backers within the government abusing their official posts to coerce state employees into signing pro-Yeltsin petitions. Other parties, too, have engaged in the (perfectly legal) practice of paying for signatures in an effort to collect the necessary one million. Only the communists, who have already established a network of election observers to guard against fraud on voting day, can afford to remain aloof from such practices.

But for all the communists' natural advantages of a deeply aggrieved populace and an efficient organisation able to transform this malaise into votes, Mr Yeltsin has been steadily gaining in the polls. If the current dynamic continues Mr Yeltsin, who enjoyed only half Mr Zyuganov's popularity in January, could be within 3 or 5 per cent of the Communist leader by voting day.

Many of the most popular explanations of Mr Yeltsin's apparent resurgence – and arguments for why he will win in June – are specious. One of the most common, especially within the corridors of the Kremlin, is that the president's control over government officials and company managers across the country will swing the elections in his favour.

But this conviction that the president's *nomenklatura* can deliver the vote ignores one of Mr Yeltsin's most important achievements – the creation of democracy in Russia. As the December parliamentary elections, in which communists triumphed over the pro-government party, showed, regional governors and factory bosses can no longer control the voting of their residents or employees. Many of them may not even try; they were in power under the Soviet regime and they might be confident of keeping their jobs if the communists win.

The President's guard in the Kremlin: adjusting the ornate uniform of a past era in preparation for protecting the incumbent in years to come James Hill

Another frequent line of reasoning is that, on the fateful hour, Russians will vote for Mr Yeltsin because seventy years of communist dictatorship have bred a deep national aversion to a leftist revanche. But it stretches credulity to argue that Russia, homeland of the Bolsheviks, is today more anti-communist than Poland, which fiercely resisted communist rule five decades ago but elected a neo-communist president by a narrow margin last year.

Ironically, if Mr Yeltsin is re-elected in June it could be thanks to his communist credentials, rather than his democratic ones. Unlike the defeated reformers of eastern Europe, who had been political dissidents in the Soviet era, Mr Yeltsin had been one of the world's highest- ranking communist leaders, a candidate member of the Politburo. The radical shift in eastern Europe, where former political prisoners took over the government, was far more gentle in Russia, where the old Soviet elite remained in place, but changed its ideological colours.

As Mr Kakha Bendukidze, a Russian entrepreneur, explains: "Yeltsin is really the leader of the social-democratic wing of the Communist Party of the Soviet Union. The other wing of the old communist party, all the tough Marxists, are today's Communist Party of the Russian Federation."

In many ways, the lack of a real alternative to the old communist rulers is Russia's tragedy. It accounts for Russia's failure to launch truly radical market reforms at the very outset, as Poland did with spectacular results, and for the extremely corrupt character of Russia's "reformist" government.

But on election day, his communist credentials could act in Mr Yeltsin's favour. No matter what he does, the president can count on the liberal vote, which makes up some 20 per cent of the electorate: Russia's diehard democratic minority is likely to put aside its deep-seated disgust with Mr Yeltsin in a run off between him and Mr Zyuganov.

The real prize is the centrist majority, which is nostalgic for the security of the communist era but does not want a return of wild-eyed leftist revolutionaries. And unlike the bona fide democrats of eastern Europe, Mr Yeltsin and his ex-communist *apparatchiks* may be able to win over the Russian middle ground. Mr Yeltsin and his comrades are their country's natural party of power, and in the fight for Russia's conservative electorate they may ultimately seem more trustworthy than the hardline rump of the old Soviet elite which went on to form today's Communist party.

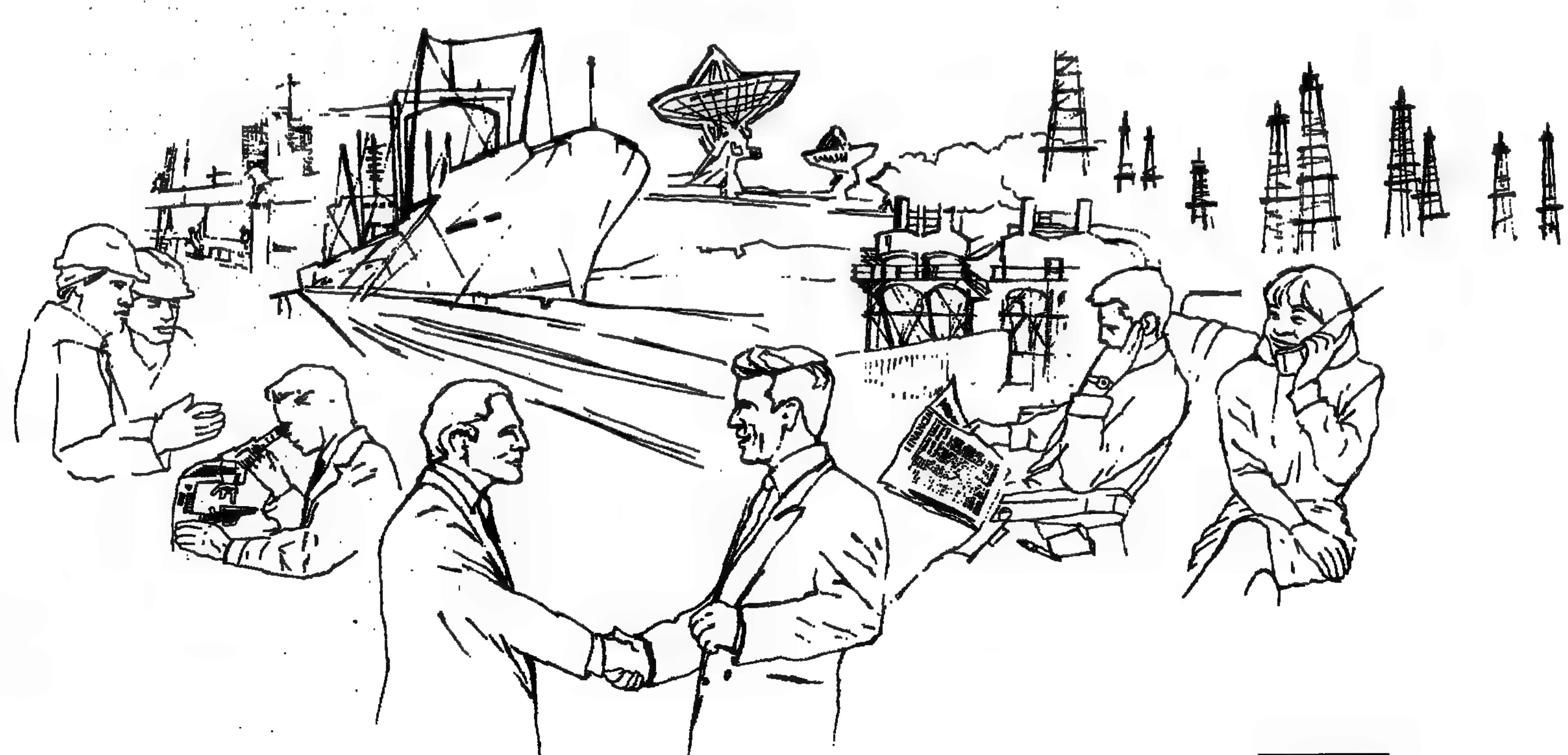
In order to win the centrist vote, Mr Yeltsin and his supporters have mounted an all-out campaign to persuade Russian voters that Mr Zyuganov's party is dominated by hardcore leftists who will seek to expropriate private property, bring back wage and price controls and could even provoke a civil war if their leader is elected in June.

As Mr Anatoly Chubais, the architect of Russia's bold mass privatisation programme, argues: "This kind of policy (of the Communists) will lead to big bloodshed in Russia. Business leaders in the west who try to support Zyuganov will be responsible for the blood if he is elected president."

But the moderate wing of the Communist party, led by Mr Zyuganov, is anxious to make the opposite case. He

Continued on Page II

IN THIS SURVEY



Politics: by Chrystia Freeland

In search of the paragon

Democracy is an alien system in a country where civil war and revolution are institutions

In one of his increasingly frequent television appearances, Russian President Boris Yeltsin recently asked reporters to pass on a message to Mr Gennady Zyuganov, the communist leader who is his principle challenger ahead of June presidential elections: "Tell Zyuganov he still doesn't need an armoured personal carrier to come to work at the parliament."

Mr Yeltsin was joking, but his comment was a reminder that democracy is still an alien system in Russia, a country where civil war and revolution are venerable national institutions. The most telling sign of democracy's fragile roots in Russian soil is the extent to which, just two months ahead of the June 16 presidential ballot, many influential observers continue to wonder whether elections will take place at all.

The most recent scare – which prompted the president's reassuring message to his communist rival - followed the Russian parliament's controversial decision last month to annul the treaty which formally dissolved the Soviet Union. Two days after the vote Russian authorities, saying they feared a bomb had been planted in the parliament, set up police barricades around the building and barred members from entering.

Senior communists claim the bizarre episode was part of a failed attempt by the hard-line faction in the Kremlin to persuade Mr Yeltsin to dismiss the legislature and call off the presidential ballot, using the treaty vote as a pretext. Mr Yeltsin fiercely rejected the allegations, but the entire incident served as a timely reminder of the volatile atmosphere in which sovereign Russia's first presidential elections are being held.

Even so, Mr Yeltsin's repeated and public pledges that the presidential vote will be held on schedule, together with intense pressure from the west to stick to the democratic timetable, have succeeded in convincing most observers that the elections are not likely to be called off.

But many analysts remain concerned that the government may try to manipulate unfairly the ballot. There are already abundant signs that Mr Yeltsin intends to throw the full weight of the Russian state behind his bid for re-election. Most of the leading figures in the government have openly joined Mr Yeltsin's campaign team, a combination of official and political duties which is ripe for abuse.

Freedom of the press and electronic media, one of Russia's most precious achievements since the collapse of communism, could also be in jeopardy. Russia's two state-owned television channels have reverted to the fawning pro-government stance of the Soviet era, only now it is communists not capitalists whom they vilify.

More worryingly, NTV, the independently owned television station which has bravely covered some of the Kremlin's biggest mistakes, such as the war in Chechnya, appears to be sliding over into the Yeltsin camp as well.

But in Russia's young democracy, using the government bureaucracy and leaning on television bosses is seen as one of the inevitable, if undesirable, advantages of incumbency. The real test is whether the voting itself and the counting of the ballots will be free and fair. In this respect, many analysts fear that one of the most dangerous periods could be the gap between the first and second rounds of the voting.

According to Russian law, a candidate can be elected president on the first ballot only if he or she wins more than 50 per cent of the total votes cast.

Optimistic Communist party activists hope that Mr Zyuganov will squeeze through in the first round, but most independent pollsters and analysts predict that none of the contenders will garner the necessary outright majority. If that happens, the president will be elected in a second round of voting, a run-off between the top two candidates in the June 16 ballot.

Gennady Zyuganov: leader of the communists and main opponent Reuter

Many observers fear that the most flagrant abuses could take place between the first and second ballots, particularly if Mr Zyuganov enjoys a strong lead going into the final round. One structural loophole which could invite foul play is the lack of fixed date on which the second round – if there is to be one – must be held.

Instead, Russian law only specifies that the Central Electoral Commission must publish the results of the first round within three weeks and that, in addition, the second ballot must be held no later than two weeks after that.

Conventional wisdom, and most opinion polls, predict that no candidate will win in the first round, leading to a run-off between Mr Yeltsin and Mr Zyuganov. In anticipation of that confrontation, both men have begun moving into the middle ground, as they try to win over the broad swathe of centrist voters who will determine the outcome of the elections.

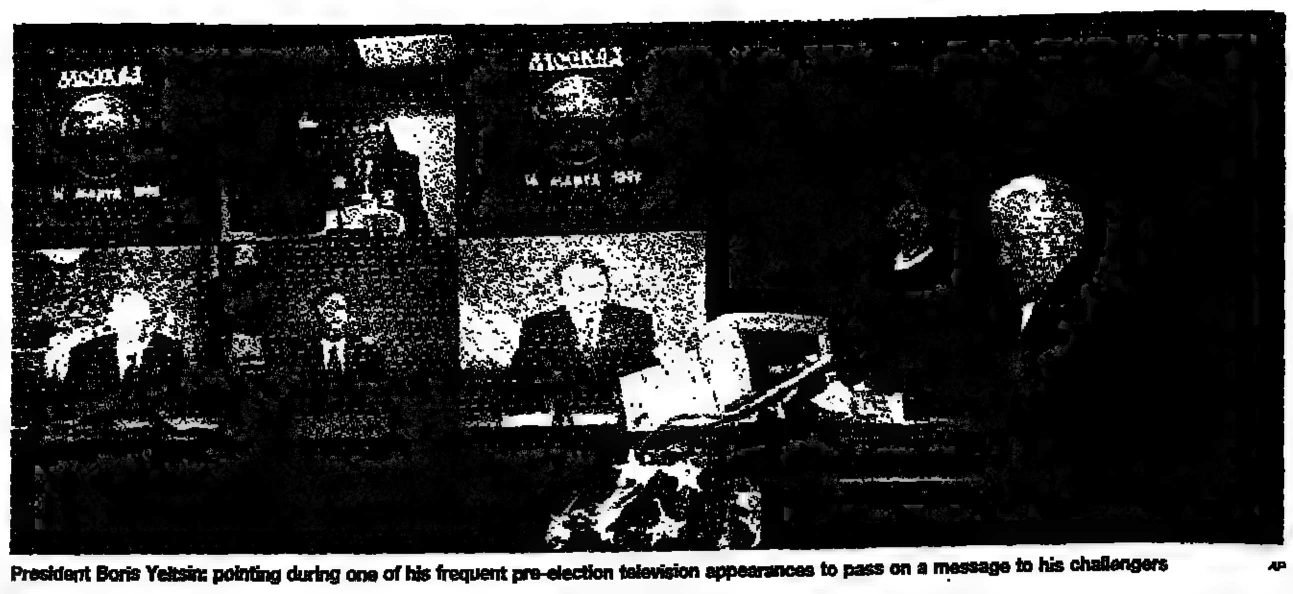
"You can see quite an interesting process," explains Mr Nikolai Ryzhkov, a former Soviet prime minister and a member of the broader leftist coalition supporting Mr Zyuganov. "Zyuganov will move from the left to the centre and Yeltsin will do the opposite and try to move from the right to the left."

The convergence – at least on a rhetorical level – has already been remarkable. Mr Anatoly Chubais, the architect of market reforms, was a hate figure for the communists; in January, Mr Yeltsin sacked him. The communists promise to annul "illegal" privatisation: Mr Yeltsin's cabinet ministers have taken to making similar pledges and his courts are already reviewing the legality of many privatisations.

The communists have vowed to recreate the Soviet Union and, under their domination, the parliament has annuled the treaty which dismantled the USSR; Mr Yeltsin has created a new "union" with Belarus and promises to bring in other republics.

Some of Russia's most eminent reformers have stoically endured Mr Yeltsin's shift to the left. Their rationale was captured by Mr Chubais, who, despite his humiliating dismissal, is now turning his formidable organisational talents to the president's re-election bid.

"My logic is very simple," Mr Chubais explained. "My main goal is not to allow Zyuganov to become president of Russia and ... my understanding is that the only way to reach this goal is to support Mr Yeltsin."



President Boris Yeltsin: pointing during one of his frequent pre-election television appearances to pass on a message to his challengers AP

But other prominent democrats are unconvinced. Although they share Mr Chubais's loathing of the communists, they argue that, because of his shift towards increasingly nationalistic and leftist policies, the incumbent can no longer be viewed as the reformist candidate.

Instead, a group of Russia's leading liberals, including a former Yeltsin cabinet minister, announced earlier this month that they would support Mr Grigory Yavlinsky, Russia's leading reformer outside the government. As a pragmatic rationale for their move, they cited polling results which show that, while Mr Yeltsin has higher overall ratings, Mr Yavlinsky stands a better chance of beating the communist candidate in a run-off.

Another dark horse is Mr Vladimir Zhirinovsky, Russia's flamboyant ultra-nationalist. Although the extremist leader has been falling in the polls, Cassandras have begun to point out that Mr Zhirinovsky is perennially under-rated and warn that a Zyuganov-Zhirinovsky face off in the second round remains a distinct possibility.

At the opposite end of the spectrum is Mr Mikhail Gorbachev, the former Soviet president, whose decision to run in June sparked a flutter of interest in the west, but has been almost completely ignored in Russia.

Most of Russia's disaffected voters would probably agree with the verdict of Mr Kakha Bendukidze, a Moscow entrepreneur. In Mr Bendukidze's view: "The ideal presidential candidate doesn't exist, he probably hasn't been born yet, or maybe he is just 15 years old. An ideal president for our country today would need to be as tough as Thatcher, as smart as Nixon, speak as well as Clinton, have the patience of the pope and know Russia like Solzhenitsyn."

Campaigning for the middle ground

Continued from Page I

kicked off the charm offensive at the exclusive gathering of international business leaders in Davos this spring, presenting himself as a western European style social democrat, and, as proof of the compatibility of leftist governments and foreign investment, pointed out that China, still ruled by geriatric communists, has attracted almost ten times more foreign investment than Russia. Mr Zyuganov's party has been equally assiduous at home and many prominent Russian entrepreneurs admit to contributing to Communist party coffers. This careful appeal to the business community has convinced some western and domestic observers that, after an initial period of uncertainty, the communists are likely to revert to a softer version of the current government's economic strategy. They argue that the growing influence of Russian financial markets, the strict conditions attached to the $10.2bn International Monetary Fund loan and the waxing power of private business in Russia will all rein in the wilder spirits within the communist coalition and push its leaders into following a centrist line if they come to power. But even the most optimistic observers say a communist victory would usher in a dangerous period of economic confusion, which could weaken Russia's fragile market infrastructure and sabotage its hard-won financial stabilisation.

Sadly, many Russians are also convinced that even if Mr Yeltsin wins, a troubled future awaits their country. They fear that the president's re-election will more deeply entrench the ruling elite, which trades on its government connections to arrange profitable financial deals. Mr Yeltsin's new *nomenklatura* is particularly powerful in the provinces where regional governors rule with all the autocratic vigour of feudal lords – or of communist party secretaries.

As Mr Sergei Kovalyev, the former dissident who resigned as human rights commissioner this spring, told Mr Yeltsin in an open letter: "You began your democratic career as an aggressive and energetic fighter against official lies and party despotism, but you are ending it as a docile instrument of the will of the cynical and power-hungry people who surround you...Today, you are promoting yourself as the only alternative to Zyuganov and Zhirinovsky. You shouldn't, because there are more similarities than difference between you and your rivals."

Disillusioned Russian democrats like Mr Kovalyev have a point. Unlike their eastern European neighbours, Russians have not yet been offered a true alternative to the old communist elite, but instead must choose between what amounts to two wings of the old *nomenklatura*. Yet the bleak perspective of Russia's instinctively gloomy intelligentsia risks obscuring the transformation which the country has undergone over the past decade. Thanks to the radical changes set in motion by Mikhail Gorbachev and kicked into high gear by Mr Yeltsin, Russia has begun a metamorphosis that neither Mr Zyuganov's hardline comrades nor Mr Yeltsin's corrupt cronies can stop for long. No matter who they elect in June, Russia's voters will be part of a historic achievement. If the presidential elections are held freely and fairly, they will mark the first time that Russian voters are given the right to oust their national leader at the ballot box. After a millennium of autocracy, the emergence of democracy in Russia is a tremendous step forward, even if, in contrast with 1917, the political upheavals upset the St Petersburg stock exchange.

> Russians have not yet been offered a true alternative to the old communist elite

The economy: by John Thornhill

The illusion of a watershed

The public gets little sense of a 'feel-good' factor, seeing reforms only as incompetence

Future historians may record that 1995 was the watershed year in Russia's transition to a market economy in which inflation was finally tamed, public finances were strengthened, and industrial production began to revive after years of agonising contraction.

Then again, they may conclude the year was no more than an illusory ray of hope in Russia's "lost decade" as the Communist victory in the presidential elections in June 1996 sparked a new round of hyper-inflation and chronic financial instability which took years to overcome.

Russia's past has continually been rewritten to reflect present realities. As one Soviet historian commented: "The trouble is you never know what's going to happen yesterday." Two very different – but perhaps equally valid – interpretations of Russia's economy are possible depending on what happens next.

There is no doubt that Russia took giant steps towards entrenching its nascent market economy in 1995. The achievements are simply stated, no matter how painfully won:

- A tight monetary squeeze cut the monthly rate of inflation from 17.8 per cent in January 1995 to 2.8 per cent by February 1996 – its lowest level since reforms began.
- The budget deficit was cut from 10.4 per cent of GDP in 1994 to 2.9 per cent in 1995 and for the first time was financed almost entirely by non-inflationary means through the expansion of the government debt market and external credits.
- The collapse of industrial production finally appeared to bottom out, as real GDP fell by just 4 per cent in 1995, trade was further liberalised, and exports rose by 18 per cent to $78bn.
- The value of the rouble was successfully defended through the introduction of a currency "corridor" as the central bank emerged as a responsible financial institution lifting foreign reserves to $13.4bn by October 1995. In real terms, the rouble appreciated by 42 per cent last year.
- The International Monetary Fund, which helped devise the stabilisation programme, backed reform with a $6.2bn stand-by loan in March 1995 followed by a further $10.2bn three-year loan agreed last month.

As a result of these achievements, Russian politicians and western economists have been quick to declare victory in the war to turn Russia into a functioning market economy.

Last autumn, Mr Anatoly Chubais, the chief architect of Russia's stabilisation programme, publicly mused about Russia becoming a Slavic tiger economy recording annual growth rates of 10 per cent.

With similar optimism, Mr Anders Aslund, a former economic adviser to the Russian government, published an upbeat book explaining *How Russia became a Market Economy*. And Mrs Brigitte Granville, a senior research fellow at the Royal Institute of International Affairs, followed with an unambiguously-titled tome: *The Success of Russian Economic Reform*.

But the average Russian worker, who last year endured a 13 per cent fall in real income, saw unemployment rise from 7.5 per cent to 8.2 per cent over the year, and frequently failed to receive their wages on time, tended to view things differently.

Industrial leaders also grumbled about sky-high interest rates, the corruption and criminality that seemingly encrusted the administration, and the continuing slump in domestic investment which has fallen from the equivalent of 20.6 per cent of GDP in 1990 to 15.1 per cent last year.

The public disillusion with the government's reform programme was further inflamed by last year's Byzantine "shares-for-loans" privatisation scheme, which transferred big shareholdings in some of the country's most valuable companies to a handful of well-connected banks at seemingly give-away prices.

The absence of any appreciable economic "feel-good" factor for the mass of Russia's population and a sense of disgust about Moscow's maladministration were undoubtedly among the main reasons the electorate delivered a strong anti-government protest vote in the parliamentary vote in December.

And, in that sense, Russian economic reforms may yet be judged to have failed in that they did not create a popular understanding of the logic and necessity of what needed to be done, discrediting the very concept of capitalism.

According to a recent study of the mass consciousness of the Russian population, sponsored by Germany's Friedrich Ebert Foundation, disaffection with the reform process has become fairly widespread with 43 per cent of Russians blaming their families' hardships directly on the government's economic policies.

"The greatest protest is evoked by the policy of privatisation, the growth of prices and the absence of state control over economic activities," the report stated. Such sentiments have not been lost on theCommunist party, which stresses the reversal of "criminal" privatisations, the re-imposition of some price controls, and a more interventionist state.

This year, Mr Yeltsin has put more emphasis on social concerns by launching an offensive to pay delayed wages while squeezing down inflation – the policy which most helps the poor.

But this initiative is being hampered by a shortage of money as the monthly budget deficit rose to 7.2 per cent in January.

While praising the Russian government for the overall success of its stabilisation programme, Mr Thomas Wolf, the head of the IMF's Moscow office, concedes that the "one very bad outcome" of last year was that budget revenues fell way below target.

"The result was that the Russian government had to cut back real expenditure by a heck of a lot, even more sharply than had been anticipated," he says.

The government's difficulties in raising revenues mainly stem from the inconsistency of micro-economic reform. In particular, Russia's primitive and punitive tax code has led to mass avoidance and fails adequately to cover the emerging private sector.

But the government's failure to close some of the most egregious tax loopholes has also undermined its revenues and dented its credibility.

Some giant enterprises, most conspicuously Gazprom, the giant gas-producing monopoly, have been able to avoid paying their appropriate share of taxes.

Other privileged trading organisations, such as the National Sportsmen's Fund with close ties to the Kremlin, were also granted massive exemptions to import billions of dollars worth of goods duty-free.

At the IMF's prodding, the Russian government has already taken action to close such loopholes and it is possible that a second Yeltsin *administration would complete* a package of micro-economic reforms such as the encouragement of competition, liberalisation, and the introduction of an effective tax regime.

Arguably, Russia's economy is stronger and more stable than it has been at any point this decade and is on the brink of a foreign and domestic investment boom which is desperately needed to upgrade the country's fast-eroding industrial base.

But the government's difficulties in raising revenue, its extraordinarily high borrowing costs, and the weakness of the banking sector all reflect the economy's continuing fragility.

Mr Alexander Livshits, the president's chief economic aide, fears a communist victory in the presidential elections would shatter the delicate equilibrium delaying the day when Russia's painful reforms finally bear fruit.

"Can you imagine Zyuganov ever saying my main goal is financial stabilisation?" he asks.

INDICATORS OF LIVING STANDARDS

	1990	1991	1992	1993	1994	1995
Life expectancy at birth (years):						
Male	63.8	63.5	62.0	58.9	57.3*	58
Female	74.3	74.3	73.8	71.9	71.1*	72
Mortality (per 1,000)	11.2	11.4	12.2	14.5	15.7	NA
Infant mortality (per 1,000)	17.4	17.8	18.0	19.9	18.6	NA
Nutrition (daily calorie intake per head)	2,589	2,527	2,438	2,552	2,427*	2,310
% of consumer expenditure on food	36.1	38.4	47.1	46.3	46.8*	52
No of cars (per 1,000)	56.8	63.5	68.5	78.7	84.4*	NA
No of telephones (per 1,000)	158	164	167	172	176*	NA

*Preliminary. Source: Goskomstat

Anatoly Chubais: mused about Russia becoming a Slavic tiger economy

KEY FACTS

Area	17,000,000 sq km
Population	148.2 million[1]
Head of state	Boris Yeltsin
Average exchange rate	1995 $1=Rb 4,559
	1996[2] $1=Rb 4,735
Currency	Rouble

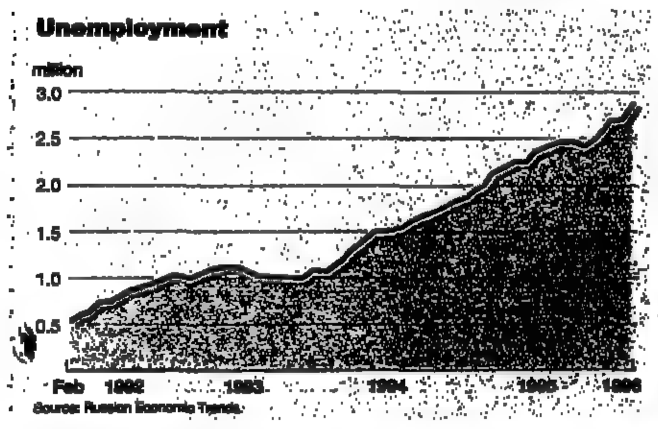
ECONOMY

	1995	1996[3]
Total GDP ($bn, ppp basis)[4]	626.9	663.3
Real GDP growth (%)	-4.0	3.0
GDP per head ($)[4]	4,230	4,482
Annual average growth in:		
Consumer prices (%)	196	80
Real disposable income (%)[5]	-13.4	NA
Industrial output (%)	-3.0	3.0
Agicultural output (%)	-8.0	1.0
Gross fixed investment (%)	-13.0	3.0
Unemployment rate (%)	8.2	9.5
Money growth (M2, %)[5]	118.6	NA
Stk mkt indx[6] (% change,pa)[5]	-21.1	-6.5[2]
Budget balance (%GDP)	-5.0	-5.5
Total debt ($bn)	104.2[7]	111.1
Debt service ratio (%)	8.1	12.2
International reserves ($bn)	10.9	NA
Current account balance ($bn)	13.3	7.1
Merchandise Exports($bn)	64.3	64.5
Merchandise Imports ($bn)	-41.6	-46.7
Trade balance ($bn)	22.7	17.9
Main trading partners (1994)[8]:	Exports	Imports
Eastern Europe	13.0	10.3
- Poland	1.8	2.6
Western Europe	35.8	21.4
- Germany	8.4	8.9
CIS	22.2	16.5
- Ukraine	10.5	7.1
US	5.9	3.3
Japan	3.5	2.9
China	4.5	2.5

(1) Estimate (2) Year to date (3) Estimate unless otherwise stated (4) Based on estimated purchasing power parity (5) End period (6) ROS index (7) End Nov (8) Share of world trade

Source: Datastream, EIU, Central Bank, CS First Boston

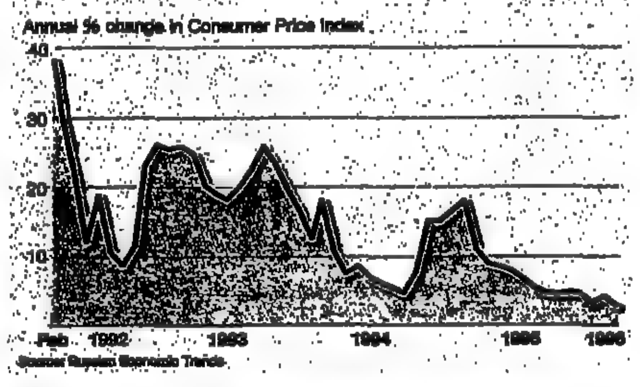
Unemployment



Source: Russian Economic Trends

Inflation

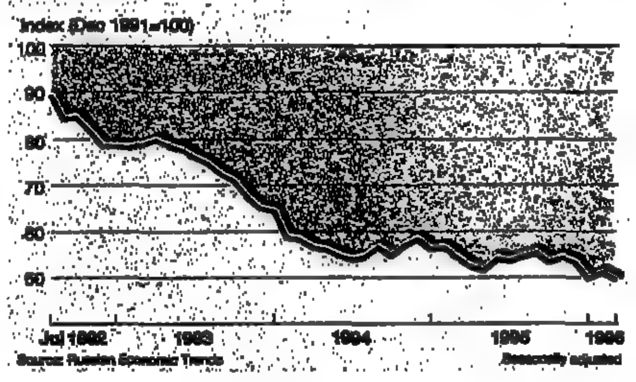
Annual % change in Consumer Price Index



Source: Russian Economic Trends

Real industrial production

Index (Dec 1991=100)



Source: Russian Economic Trends. Seasonally adjusted

PROFILE **Yevgeny Primakov, foreign minister**

A forceful but subtle style

The return to a dogmatic line feared by the west has not occurred

Primakov: inspires healthy disrespect in the capitalist world

Rarely in modern diplomacy can the appointment of a new foreign minister have set off so many alarm bells.

When Mr Yevgeny Primakov, a 66-year-old veteran of Soviet Middle Eastern policy and post-Soviet espionage, took charge of Moscow's foreign relations in January, US officials did not hide their consternation.

The new minister was denounced as an unreconstructed cold warrior, who had been too zealous by half in trying to head off international action against Iraq in 1991 - and played a tough game as head of Russian foreign intelligence after 1992.

In practice, dealing with Mr Primakov has proved to be less terrifying than the West feared. As Russia's partners have discovered, there are advantages in talking to a man who enjoys high standing in the Kremlin and runs little risk of being branded as a western toady.

Precisely because he inspires such healthy disrespect in the capitalist world, the appointment of Mr Primakov was hailed across a broad spectrum of Russian opinion as a welcome contrast to the fawning pro-westernism of Mr Andrei Kozyrev.

With a forceful figure in charge, Russia's diplomats have a new spring in their step. And Mr Gennady Zyuganov, the communist leader, has hailed Mr Primakov's elevation as a rare display of sound judgment by President Boris Yeltsin.

With credentials like that, the arrival of Mr Primakov has destroyed any lingering traces of the glib optimism which marked Russian-western ties after the Soviet collapse. But his advent has not heralded a return to cold-war tension either.

Mr Primakov's style is more subtle. Instead of presenting other countries with a single, dogmatic line, he tries to influence them by hinting at a broad range of scenarios.

Under his guidance, Russia has brought undiminished energy, and somewhat greater dexterity, to one of its main foreign policy concerns: the campaign to stop, slow or water down the expansion eastwards of Nato.

While still saying that Russia would prefer Nato not to grow at all, Mr Primakov has sketched out some intermediate options - like the admission of ex-communist states to Nato's political wing, but not its military structure.

But his top priorities seem even closer to home. Instead of rushing to ingratiate himself in western capitals, he began his new job by visiting virtually all the ex-Soviet republics, and underlining Moscow's desire for closer relations.

Having grown up in Tbilisi and studied at the Moscow Institute of Oriental Studies, Mr Primakov has long-standing connections with many of the leading politicians in the southern republics – and is therefore well qualified to woo or cajole them back into Moscow's sphere of influence.

The new minister has also masterminded Russia's admission to the Council of Europe – by making it plain that Moscow would take it very personally if its actions in Chechnya were viewed as an insuperable obstacle.

As intelligence chief, Mr Primakov used to say that Moscow aimed above all to stop the emergence of a "unipolar" world: in other words, preventing the US from using the Soviet Union's collapse to dominate the international order.

Taken literally, this seemed to be a warning that Russia would look for every opportunity to counter-balance US influence: by exploiting transatlantic splits, preserving old ties with India, selling arms and technology to China and Iran, and reviving its links with pariahs like Iraq and Libya.

Mr Primakov may still be tempted by such a policy: most of Russia's foreign policy makers are. But he is also too sophisticated not to realise that a headlong rush into confrontation with the West would simply backfire.

Without doing anyone gratuitous favours, Mr Primakov has so far been careful to preserve the foundations of the Russian-western relationship: an understanding that both sides have an interest in co-managing the legacy of the cold war.

In practical terms, this means urging the Duma (unsuccessfully, so far) to ratify the Start-2 accord on cutting long-range nuclear arsenals, so long as the US does not abandon the ABM treaty which limits anti-missile defences.

Furthermore, it implies working with Washington to secure the widest possible acceptance of a comprehensive test ban treaty; talking business with the West over nuclear safety; and entering joint arrangements to handle the deadly nuclear material that is piling up as warheads are dismantled.

Mr Primakov's hands are also tied by political factors. He has been a faithful servant to successive masters of the Kremlin – from Leonid Brezhnev - to Mikhail Gorbachev – and he seems loyal to President Boris Yeltsin, who is vested by the constitution with setting the compass in foreign policy.

Serving Mr Yeltsin means avoiding any action which would wreck the relationship between the Russian leader and US President Bill Clinton.

It is, after all, a relationship in which both leaders have invested their political capital.

So far at least, this has meant that Russia avoids any action that would hopelessly undermine Mr Clinton's claim to have made the world a safer place, through careful handling of Moscow.

Mr Clinton, for his part, has consistently backed Mr Yeltsin against his internal adversaries.

Preserving the Yeltsin-Clinton axis has required both sides to limit the scope of some potentially serious clashes: over Chechnya, the transport of Caspian Sea oil and over Russia's supply of nuclear technology to Iran and Cuba.

But a change at the top in either Washington or Moscow could bring these differences out into the open. If that happens, Mr Primakov will no doubt adapt speedily to a more adversarial spirit in Russian-western relations.

He would heartily agree with Senator Bob Dole's assertion that "US geopolitical rivalry with Russia did not end with the demise of Soviet Communism."

Bruce Clark

Egyptian forces clash with Iraqis during the Gulf war: Primakov was zealous in trying to head off international action against Iraq in 1991 Picture: Reuter

Chechnya: by Chrystia Freeland

The makings of a Vietnam

On top of the painful political impact, the conflict has strained the fragile economy

When President Boris Yeltsin launched the Chechen war in December 1994, he and his entourage envisioned it as a sort of Russian version of Britain's triumphal defence of the Falkland Islands. The operation in Chechnya, which General Pavel Grachev, the minister of defence, promised would be wrapped up in 48 hours, was to be a small, swift and popular war which would boost Mr Yeltsin's flagging public ratings.

More than a year later, the Chechen conflict is looking more and more like Mr Yeltsin's Vietnam: a protracted, messy fight against deeply entrenched partisan forces which could prove fatal to the president's hopes for re-election.

Although most Russians have little sympathy for the Chechen separatists, television footage of the war serves as a nightly reminder of the incompetence and brutality of Mr Yeltsin's administration.

With opinion polls suggesting that the Chechen war, which has already claimed at least 30,000 lives, is a significant factor in voters' attitudes to Mr Yeltsin, one of the Kremlin's top political priorities has become to find some kind of first aid solution for the conflict ahead of the June 16 presidential poll.

The Kremlin's boldest and most public effort to end the war is the peace plan unveiled with great fanfare by Mr Yeltsin at the end of March.

Appearing on national television, Mr Yeltsin promised an immediate, unilateral ceasefire and said that Russian troops would gradually be pulled back to Chechnya's borders. The Russian president also pledged to hold democratic elections for a local legislature, said he would ask the Russian parliament to consider an amnesty for Chechen fighters and offered to enter into negotiations with Mr Dzhokhar Dudayev, the Chechen separatist leader.

Some western governments, which are keen to see Mr Yeltsin triumph over his communist rival in the June ballot, hailed the proposal as a breakthrough and the White House went so far as to urge the Chechens to lay down their arms and sit down at the bargaining table with the Kremlin.

But in Moscow and in Chechnya, the plan has received a chillier reception.

Politicians and analysts point out that the plan is largely a reiteration of policies Russia had already been pursuing with no noteable success.

They have described Mr Yeltsin's initiative as a pre-election ploy which has little chance of breaking the bloody stalemate in the north Caucasus.

Mr Yeltsin's plan has also failed to remove what specialists say is the biggest stumbling block to a peaceful settlement: Russia's fundamental misunderstanding of the nature of the conflict in Chechnya.

From the very outset, the Russian government has described Mr Dzhokhar Dudayev, the Chechen separatist leader, as a "bandit" whose criminal gang would be ousted by a "police operation."

Mr Yeltsin's much-heralded peace plan seems to have done little to alter this perception: less than 24 hours after the president announced his plan, Gen Vyacheslav Tikhomirov, the commander of Russian forces in Chechnya, insisted that his soldiers would continue to "disarm unlawful gangs," the Orwellian term Moscow has used all along to describe the entire 15-month war.

But, nothwithstanding the Kremlin's wishful thinking, Mr Dudayev is the leader of an independence movement which enjoys overwhelming support from the local population. The brutality of Moscow's attack on Chechnya – at the height of the Russian bombardment more bombs were dropped on Grozny, the Chechen capital, every hour than were dropped on Sarajevo per week during the most intensive fighting in Bosnia – has paradoxically strengthened the popular determination to resist Russian rule.

"It seems to me that the top brass completely fails to understand what sort of war is being fought in Chechnya," says Mr Alexander Iskandarian, the co-director of the Centre for North Caucasian Studies in Moscow. "But this is war of a different sort; it is almost a classic guerrilla war."

As a result, Russia's political and military gains in Chechnya are quickly dissolved in the quicksand of popular support for the separatist cause. Russian generals say that the number of Chechen rebels steadily increases whenever Russian forces enter a region as the local men leave their day jobs and take up arms.

Even the Russian-sponsored local Chechen police force is reportedly full of Dudayev supporters who need the income of a government job.

If Chechnya is unlikely to yield Mr Yeltsin the pre-election gift of a peace settlement, it could produce a politically disastrous upsurge of fighting on the eve of the presidential poll.

Mr Dudayev views the Russian leader as the criminal author of a "genocide" against the Chechen people and, in a recent interview, he said that he would welcome Mr Yeltsin's defeat at the ballot box.

On top of its painful political repercussions, the Chechen conflict has strained Russia's already fragile economy. Mr Vladimir Panskov, the minister of finance, says that the Rbs10,000bn spent to date on the Chechen war is one of the chief causes of the massive wage arrears which have contributed to Mr Yeltsin's political woes.

As for the Chechens, who fiercely resisted Tsarist armies in the 19th century and endured deportation at the hands of Joseph Stalin, they seem determined to fight off the newest incursion by Russian troops, no matter what the cost. As Mr Dudayev said recently: "We are much more interested in continuing the war than Russia, because what is left for us? A destroyed economy, no industry, no production. People are left without a roof over their heads, without bread, without jobs."

'Peace in Chechnya': a sign in front of Grozny's presidential offices *Reuter*

The military: by Bruce Clark

Neither weak nor strong

Political parties scramble to recruit well-known generals in a show of nostalgia for military strength

In theory, almost everybody in Russia wants a mighty defence force. In practice, most parts of the former superpower's military machine look lamentably weak, and in danger of getting weaker.

Bastions of competence – including the paratroopers, the marines and strategic rocket forces – still exist, but the majority of Russia's 2m or more servicemen are struggling to survive in a world of brutality, cynicism and decline.

Infantry units operate with barely 40 per cent of their authorised manpower; many garrisons are short of fuel, spare parts and food; and the atmosphere of hunger and poverty has exacerbated the perennial problem of crime and bullying.

Mr Alexander Zhilin, defence correspondent of the weekly Moscow News, recently painted a horrific picture of conditions among the Russian troops who for the last 15 months have been fighting in Chechnya.

"Alcohol or drug-induced intoxication is the standard state for Russian servicemen," he wrote.

"For every man who dies at the hands of the Chechen rebels, there are five who die through negligence or fights between servicemen."

As the authorities intensify their efforts to enforce conscription, the ingenuity of draft-dodgers – and of their mothers, a vocal anti-war lobby – increases in response.

This makes it hard to guess the exact size of Russia's forces.

One British expert, Mr Mark Galeotti, estimates the defence ministry's forces at between 1.5m and 1.7m, while other military units, including 200,000 border guards and 270,000 internal peace-keepers, may total about 700,000.

Like most western commentators, he believes the decline of the Russian military has some way to go.

Yet the nation's continuing nostalgia for military strength is highlighted by the way in which political parties of every hue scramble to recruit well-known generals.

Heroes as well as villains have been created by the war in Chechnya, which was waged with unrelenting brutality in the weeks leading up to President Boris Yeltsin's announcement on March 31 of a halt to large-scale operations.

> Commanders have no choice but to go commercial themselves

General Lev Rokhlin, who reversed the army's early disasters in Chechnya and captured the half-ruined city of Grozny, has become an influential parliamentarian and an eloquent critic of military incompetence.

While he supports prime minister Victor Chernomyrdin, old war horses like General Valentin Varennikov, the former Soviet land forces commander, have given their backing to Mr Gennady Zyuganov, the communist leader who says "the army is the core of state."

The best-known soldier-politician, General Alexander Lebed, has not succeeded in fulfilling his hopes of a rapid ascent. Nevertheless, the burly paratrooper, who made his name in Afghanistan and Moldova but despises the war in Chechnya, is still being courted energetically by civilian power-brokers.

With political support in so many quarters, it may seem curious that the military remains in such a dreadful state.

But the old system – in which the armed forces simply requisitioned the cream of Russia's human and material resources – is taking a long time to die; and the supposed new system, in which the military makes efficient use of a finite quantity of funds, has yet to work properly.

The agencies that supply the forces with transport, electricity and food no longer do so out of patriotic duty: they charge stiff commercial prices, and they are liable to suspend their services unless they are paid.

Last autumn, for example, a nuclear submarine base in the Arctic found itself in the dark – until, that is, the commander sent troops round to the local power station, and Mr Yeltsin ordered electricity companies to maintain supplies to the military.

In this harsh new world, commanders have no choice but to go commercial themselves – by renting out firing-ranges to private firms, moonlighting as bodyguards themselves or even hiring out their equipment to curious western tourists.

Restoring the army's ability to cope with more serious tasks is an uphill battle for General Mikhail Kolesnikov, the armed forces chief who has gained power at the expense of General Pavel Grachev, the defence minister.

But a plan of sorts exists: to use the competence of the airborne forces to reinvigorate the rest of Russia's defences.

If the plan goes ahead, four paratroop brigades will be farmed out to military districts of the regular army, and the remaining paratroopers would be given extra tanks and artillery, to function as a 65,000-strong mechanised division.

As Mr Galeotti has noted, this literally means bringing the paratroopers down to earth – and abandoning Grachev's dream of making them the core of a large, mobile force.

But with most of the Soviet Union's strategic aviation in the hands of Ukraine, Russia's high command may have little choice but to abandon its wilder fantasies – and set about the painful task of rebuilding its strength all over again.

They will not be starting from zero.

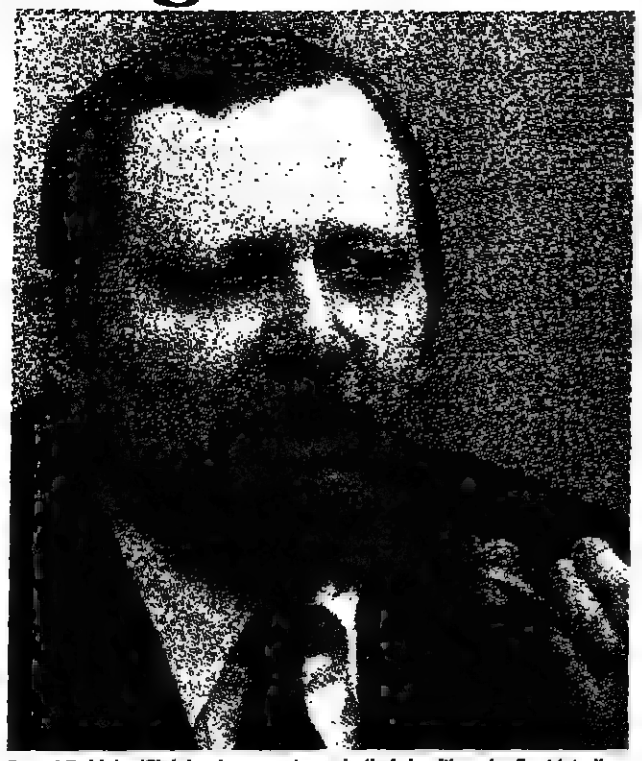
For all its problems, the country still makes weapons – from the Shkval, an underwater missile, to the SA-10 anti-aircraft missile – that send shivers down western spines, and confirm the adage that Russia is never as strong or as weak as she looks.

Mock combat for Russian paratroopers in Moscow during Paratrooper Day last August, to mark the 65th anniversary of the unit *AP*

Banking: by John Thornhill

On the edge of instability

The signs are that banks are starting to mature and move into more traditional activities



Sergei Dubinin: 'Sick banks... must regain their health or be liquidated'

Russia's new generation of entrepreneurial bankers has few doubts that the country's banking system is on the brink of wrenching and radical change.

But how successfully Russia's central bank helps manage that process of change will play a large part in determining the stability of the financial system in the immediate future and the shape of Russian capitalism for decades to come.

"Sick banks, banks that do not fulfil the rules, banks that have constant problems with their accounts and payments and settlements – these banks either must regain their health or be liquidated," says the tough-talking Mr Sergei Dubinin, head of the Central Bank, forecasting a radical shake-out among the country's 2,500 officially-registered banks.

Russia's commercial banking sector was created from scratch in the late-1980s and has since expanded at such a ferocious rate that large parts of it are over-extended and under-capitalised. Nascent bankers, from varied backgrounds, emerged in the dying days of the Soviet Union to found financial institutions which dabbled in a whole array of activities. Few of them, however, bear much relation to standard banking operations anywhere else.

Banks were able to make easy money taking cheap credits from the central bank and passing them on to industrial enterprises, financing imports, and speculating on the currency market where the rouble appeared to be in never-ending decline against the US dollar. Latterly, the banks have suckled on the the government bond (GKO) market where annualised yields remain above 100 per cent.

The high inflationary environment, which whittled away the real value of bad loans, also provided an extra comfort factor for the banks protecting them from inevitable mistakes born of inexperience, over-ambition, and the wild business climate where crime is rife and "Judge Kalashnikov" has proved the only truly effective means of recovering debts.

A European Union-sponsored study of Russia's banking sector estimated that the security arm of most medium-sized banks formed about 25 per cent of their total staff.

But the government's successful attempts to stabilise the economy in 1995 have made the business climate much tougher – as has been the case in all other transition economies. The rouble has traded within a narrow corridor ending speculative foreign exchange profits.

Inflation has tumbled to a monthly rate of 2.8 per cent in February imposing harsher disciplines on cash management. And yields in the Treasury-bill market have been dropping as foreign investors have gained limited access to the market.

A temporary paralysis of the inter-bank lending market last autumn was the first sign that stabilisation was beginning to hit the banking sector. The central bank was forced to inject short term funds into the market to preserve the liquidity of the entire sector.

Under-capitalised banks are now beginning to fail while two of Russia's largest, Avtovazbank and Natsionalnyi Kredit, are on the brink of bankruptcy and are being protected from their creditors by the central bank.

"We are going to see the number of banks decline dramatically over the next 12 to 24 months after which stability will return to the banking sector," says Mr Jim Kilzer, head of banking services at Price Waterhouse, the international consulting firm. "The smaller banks will simply be washed out of the system because they cannot find enough capital."

The central bank is trying to encourage mergers among the smaller banks by raising reserve requirements and shepherding weaker participants together. In an attempt to raise the reputation of Russia's banking sector, the central bank also stripped 315 banks of their licences last year.

But the central bank faces an extraordinarily difficult task in weeding out the weak from the strong. Banks' reporting standards are lax, regulators inexperienced, and the economic conditions still unpredictable. Auditors estimate that about 30 per cent of all bank loans are non-recoverable and the incestuous links between many banks' shareholders and customers make it near-impossible to distinguish between the health of a bank and its related enterprises.

"The central bank is a neophyte regulator with an extremely high learning curve operating in a wild and unpredictable market," says one banker.

But there are many signs that some banks are beginning to mature and move into more traditional banking activities which should result in the creation of more solid financial institutions and a more responsible banking sector.

Stolichnyi Bank, for example, is intent on setting up a retail branch network and will specialise in attracting domestic savings to compete with Sberbank, the conservative state savings bank which dominates the market.

Other banks, linked to investment funds, seem set to launch mutual funds and offer insurance services while a few are beginning to invest in property, which is used as collateral for many banking transactions in developed countries.

More Russian banks now seem willing to lend to the industrial sector and several participated in the government's controversial "shares-for-loans" privatisation scheme last year.

Banks, such as Menatep and Inkombank, ended up with large shareholdings in some of the country's most prized industrial assets. The banks suggest that they can help shake up these companies' managements, introduce much-needed financial skills, and help raise investment capital – much as old-style British merchant banks used to do.

But all these activities require new banking skills and different frames of mind. As yet, most banks have little ability to analyse financial statements, price risk, or make long-term investment calculations.

So far, Russia's bankers have shown astonishing entrepreneurial dynamism and flexibility. But their real work is only just beginning.

RUSSIAN BANKS

	1992	1993	1994	1995*
Number of banks	1,713	2,019	2,517	2,570
Number of branches**	3,138	4,539	5,486	5,791
Licences withdrawn by CB	5	25	65	315***

*End-September, unless otherwise indicated **Excluding Sberbank ***end-1995

Source: Central Bank

Communists: by John Thornhill

Fears of national socialism

If Zyuganov sees the economy as the first test, moderation might prevail

Grigory Yavlinsky: leader of the liberal Yabloko movement

Gen Varennikov: supporter of the hardline Communist coup in 1991

Some Russian politicians fear a communist victory in June's presidential election would inevitably lead to financial collapse and bloodshed as an economically-ignorant and politically-vengeful administration destroyed the foundations of a property-owning democracy.

Speaking of his former comrades, Mr Mikhail Gorbachev, the last president of the Soviet Union, says: "Knowing these people and the nature of the *nomenklatura*, I am afraid that, having gained all power, they will stop reform, take the democratic freedoms away from society and deliberately or inadvertently pave the way to national-socialism in Russia."

Less alarmist observers predict Russia's new-born democracy and market economy would restrain any revanchist impulses and force Mr Gennady Zyuganov, the communist leader, to adopt moderate policies in office – much as France's President François Mitterrand was compelled to abandon socialism and chant a monetarist mantra in the early 1980s.

"Like all politicians in the last decade of the twentieth century, he [Zyuganov] will also have to face the power of the financial markets, which will quickly bring him face-to-face with economic realities," argues a research report from Morgan Stanley, the US investment bank.

For his part, Mr Zyuganov promises he would lead a benign, forward-looking administration, respecting the concepts of a mixed economy and a pluralistic democracy but cracking down on corruption and placing greater emphasis on social justice.

It is impossible to predict which of these three scenarios would unfold in the event of a Zyuganov victory. But it would be foolish to dismiss any of them as a possibility. It is no longer clear what communism means in modern Russia nor where the limits of the politically possible lie in such a fragile, half-formed market democracy.

Perhaps the most serious statement of Mr Zyuganov's political intentions came in a speech he delivered last month to his core supporters after being nominated the Communist party's presidential candidate. In a discursive address, Mr Zyuganov made no mention of Marx, Lenin, or Stalin and barely referred to the experience of the Soviet Union. Instead, he constantly stressed the themes of Russian nationalism and social justice referring to communism more as a philosophical ideal than a creed for action.

"I am a Russian by blood and in spirit and I love my Motherland. I entered the party believing that the communist idea, which has existed for more than two thousand years, most deeply reflects people's needs and aspirations. It resonates with the ancient Russian traditions of solidarity and collectivism."

In outlining his plans, Mr Zyuganov said he would guarantee all citizens a job, accommodation, free education and healthcare, and a decent pension. He also promised to compensate those who had lost their savings as a result of "reform".

While promising to preserve a "multi-layered economy", Mr Zyuganov also pledged: to introduce a state monopoly over foreign trade in natural resources and strategic goods; to preserve state ownership of some branches of industry, energy, transport and communications; to stimulate the growth and competitiveness of production and reform the tax, credit and customs regimes.

> Zyuganov said he would annul the 1991 treaty dissolving the Soviet Union

On foreign policy, Mr Zyuganov said he would annul the 1991 treaty dissolving the Soviet Union, protect the interests of the 25m Russians living outside Russia, oppose the eastwards expansion of Nato, reform the army and restore the strength of the military-industrial complex.

From this speech, it is clear that Mr Zyuganov is no Lenin. But nor does he resemble the cuddly neo-communists of central Europe, such as Poland's President Alexander Kwasniewski.

As far as can be discerned, Mr Zyuganov's personal political vision appears to be to recreate a prelapsarian Soviet Union, circa 1988, and reform it along Chinese lines, maintaining nationalist political orthodoxy, strong state involvement in the commanding heights of the economy, and a fair measure of economic liberalism below.

"The ruling powers assert that the commmunists and their allies want to return the country to the past. But to return there is impossible for the simple reason that we are from the past and we have not left it," Mr Zyuganov said.

But, as Nato commanders used to say of the Soviet threat, it is perhaps worth trying to distinguish between Mr Zyuganov's intentions and his capabilities.

The first restraint on a President Zyuganov implementing such a sweeping programme would be political. Mr Zyuganov is likely to seek election as a representative of a wide coalition of anti-Yeltsin "national-patriotic" forces rather than as just the Communist party leader. His government may have to reflect that reality.

Mr Zyuganov's supporters span idealistic western-style social democrats to diehard communists, such as General Valentin Varennikov, a supporter of the hardline communist coup in 1991, who has talked of the party having a secret and extreme "maximum programme" – like Lenin's Bolsheviks. All will have to be appeased.

Moreover, the communists do not appear to have a team of economic experts technically capable of running a government. That suggests Mr Zyuganov may have to co-opt existing ministers or – as is widely rumoured – seek to embrace politicians such as Mr Grigory Yavlinsky, a radical economist and leader of the liberal Yabloko movement.

Even if hardline communists were to emerge dominant it is doubtful whether they would be physically capable of implementing their policies. Russia's influential regional leaders, powerful industrial bosses, forthright journalists, and even criminal gangs would surely check any communist attempts to centralise control and renationalise property.

The sinews of power also appear weak: the army has discredited itself in Chechnya; the revamped KGB has largely privatised itself; and there are more private security guards in Moscow than police.

The immediate testing ground for a Zyuganov administration would be in the economy. The defining feature of Mr Zyuganov's electoral platform is that the state will have to spend more money. Its foggiest aspect is where it will come from.

Within weeks, if not days, President Zyuganov will face a stark choice of either printing money again to finance his pledges – and inevitably sparking inflation – or renegotiating the non-inflationary stabilisation programme agreed with the International Monetary Fund. At that point, Mr Zyuganov might simply evict the IMF whom he has previously described as "Nazi gauleiters". But such a move would almost certainly spark a currency crisis, a collapse of the government debt market, and a confrontation with the central bank resulting in unimaginable economic and political consequences.

Assuming the commmunists understand that danger, the best guess is that moderation would prevail.

"All their instincts and ideas are from the past, given they were part of the ruling caste of the Soviet Communist Party, and there is no ideological basis for fanatical behaviour," says Mr Christopher Granville, head of research at UCB, joint venture investment bank.

"They want power and they will compromise with reality to keep it. The question is how long will it take and how much damage will they do in the meantime."

■ **Capital Markets:** by John Thornhill

Reining in wild expansion

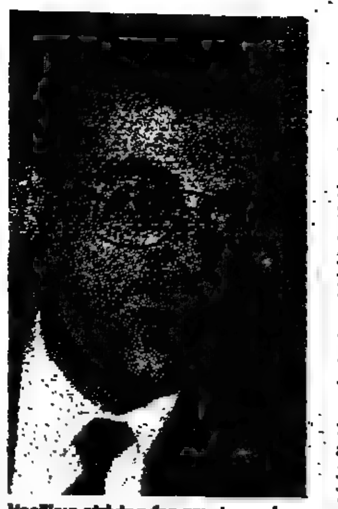
The commission has been striving to create the legal framework for fair and free markets

Mr Dmitry Vasiliev, the undemonstrative chairman of Russia's Federal Securities Commission who combines an earnest demeanour with a seemingly permanent cold, faces a truly Herculean challenge.

The 33-year-old research economist is responsible for supervising the development of Russia's unruly capital markets, which exemplify both the raw dynamism and alarming chaos that has characterised the country's transition to a market economy.

Born almost as an afterthought in the wake of mass privatisation in 1993, Russia's securities market has since experienced extraordinary, if wild, expansion with not even the most basic trading rules in place.

The market, which sprang up spontaneously as brokers began trading the shares of newly-privatised companies,



Vasiliev: striving for greater order

boomed in 1994 as Russian funds tried to grab stakes in the country's most valuable enterprises and foreign investors piled into what they believed was the "last great emerging market of the century."

But share prices collapsed later that year as several well-publicised scandals, involving secret share issues and deletions from shareholder registers, highlighted just how undeveloped the market remained. The market value of Russia's biggest companies now languishes at about $19bn – an extraordinarily low valuation given Russia's size and potential wealth.

The government bond (GKO) market, which has grown into the government's chief source of raising non-inflationary finance, has also developed rapidly since its creation in 1993.

The total stock of Treasury bills rose to almost $16bn at the end of 1995 and could grow to $30bn by the end of the year.

But the market has been marked by extreme volatility and dogged by allegations that restrictive practices keep yields artificially – and astronomically – high.

The Russian government pays more for the money it borrows from investors than almost any other government in the world.

All the while, Mr Vasiliev and the commission's small staff have been struggling to bring greater order to the capital markets to enable companies – and the government – to raise capital as cheaply and efficiently as possible and protect the rights of both domestic and foreign investors.

Traders at the Moscow commodity exchange: raw dynamism and alarming chaos have characterised the country's transition to a market economy

"I consider the first steps in the right direction have been successfully taken but we still have a long way to go," says a somewhat world-weary Mr Vasiliev, who has just been confirmed as the commission's permanent chairman.

Over the past year, the commission has encouraged the creation of the legal underpinnings of fair and free markets. New laws on joint stock companies and investor protection have come into force this year defining directors' obligations and strengthening shareholder rights and corporate governance.

Steps have also been taken to improve the liquidity and transparency of the markets themselves.

Many of Russia's biggest brokers are now linked through the Russian Trading System (RTS) which has improved the reliability of trades in the market and helped narrow spreads between buy and sell prices.

Inevitably, perhaps, progress has been slower than most investors would have liked and particular concerns remain about the inadequacy of shareholder registers and clearing and custody procedures.

But the greatest doubts surround the commission's ability to enforce its own regulations.

The commission has few powers to fine miscreants or prosecute fraudsters in the courts.

Mr Vasiliev concedes the commission is a long way from establishing the principle that those who commit crimes on Russia's capital markets will be punished.

Yet confidence in the integrity of market operators will be critical as the commission tries to encourage the formation of domestic investment funds, modelled on US mutual funds, to channel a vast pool of domestic savings – estimated at $20bn – into productive investments.

At present, the equity market is overwhelmingly swayed by inflows and outflows of foreign capital which would appear politically unsustainable.

"Russian investors are playing a more important role in the market and that is a very necessary and healthy development," says Mr Martin Andersson, chief executive of Brunswick, a Moscow-based stockbroker.

But Mr Vasiliev's efforts to build orderly markets may ultimately rely on other parts of the government pressing ahead with the reform agenda and de-politicising the economy even further.

Free competition must be encouraged, ownership rights must be enforceable in the courts, and a fair tax code must be introduced to ease the creation of investment funds and encourage companies to report rather than conceal their profits.

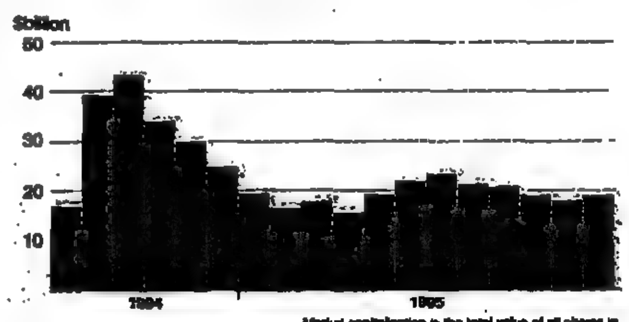
Many Russian companies are wary of disclosing full information to shareholders for fear of attracting punitive taxes. "You will never see a financial statement with real numbers in it until the government changes the tax system," says one Moscow-based financier. "At the moment the companies are keeping their accounts locked up in safes because they do not want to reveal how much money they are making."

For the moment, Russia's stock market is hovering around its all-time lows, discounting a lot of uncertainty ahead of the presidential elections in June.

But some foreign investors are still prepared to put money into the market. Alfred Berg, the Nordic investment bank, recently bought 3.3 per cent of Lukoil's shares for $130m on behalf of institutional clients.

And foreign stockbrokers predict that a flood of foreign portfolio investment will sweep into Russia's equity and bond markets if Mr Yeltsin is re-elected, putting even more pressure on the commission to finish building the market's infrastructure.

Stock market capitalisation

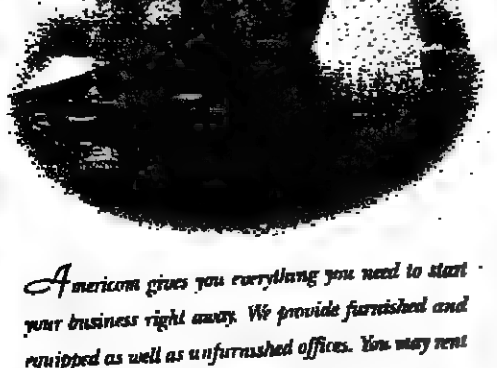


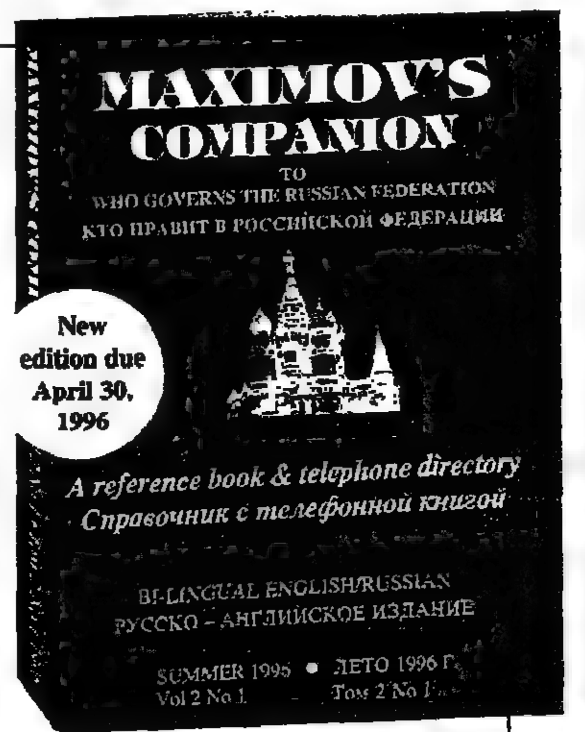
Market capitalisation is the total value of all shares in those Russian companies traded on the open market. The series covers around 200 firms, but excludes banks

Source: Russian Economic Trends

Dormash plant in Minsk: the market value of Russia's biggest companies now languishes at about $19bn

Picture: Tony Andrews





■ **Culture:** by Arkady Ostrovsky

Artists seek new role

Solzhenitsyn is a sort of dinosaur, commercially unprofitable in the new Russia

If revolutions are to be judged by an outburst of creative energy, then the collapse of the Soviet Union in 1991 has not produced artistic outpourings to qualify it for such a title.

Liberated from political censorship and with it from generous state subsidies, Russian artists felt lost and disoriented. The old familiar system of values has vanished: political opposition to the state and the moral guidance of the people is no longer an exciting or rewarding business. "With the fall of the super-empire, Russian culture lost its super-meaning," says Anatoly Smelyansky, one of Russia's best cultural critics. "Russian culture has to find a new structure."

Finding money and discovering a new role in this increasingly de-politicised society are two main problems artists face in today's Russia.

Financially things could be worse. In spite of the tough economic conditions in the country, not a single theatre or museum has closed down. Thick literary journals continue to come out and Tchaikovsky's Conservatoire is still open. "Our primary task was to preserve what was already there, and we succeeded," says Mikhail Shvydkoi, the deputy minister of culture. But while an orchestra can tour abroad, or a theatre can rent its premises, the artistic problems remain.

For centuries Russian literature rested on the notion that "a poet in Russia is more than a poet." Joseph Brodsky, who died this year, said in his Nobel prize lecture that "as long as the state permits itself to interfere with the affairs of literature, literature has the right to interfere with the affairs of the state." Today the state no longer interferes with the affairs of literature; young writers have no will to criticise the state or guide the people and people do not want to be guided. They just do not care.

All this makes Solzhenitsyn something of a dinosaur. His weekly "sermons" delivered from the television screen found little enthusiasm even among the intelligentsia. Unable to compete with the new quiz shows, Solzhenitsyn's programme was finally cancelled – this time not as an act of repression, but as a response to the market. Solzhenitsyn, whose *Gulag Archipelago* shook the Soviet Union, is simply a commercially unprofitable writer in the new Russia.

Many Russian artists are forming an alliance with the government, which, in its turn, is only too keen to display its cosy relationship with famous actors and film-makers.

Mark Sakharov, the talented director of the commercially successful Lenkom Theatre, is one who has crossed the dangerous line traditionally dividing the artist and the state. Publicly fraternising at his

> Sakharov declared his loyalty to Yeltsin in a TV interview

birthday celebration with members of the government and the new financial elite, Sakharov (referred to by Yeltsin as "our Mark") fulfils Brodsky's prophecy that the real danger for an artist "is not so much the possibility of persecution on the part of the state, as that of finding oneself mesmerised by the state's features, which, whether monstrous or undergoing changes for the better, are always temporary."

In a recent TV interview, Sakharov, once a witty and sarcastic critic of the state, declared his loyalty to Yeltsin – while just at that time, human rights campaigner Sergei Kovalyov resigned from the presidential council in protest against the president's undemocratic policies.

Once a relatively homogenous group, the Russian intelligentsia is becoming increasingly diversified in its financial status, political beliefs, and cultural tastes.

The Moscow theatre bill ranges from Sergei Zhenovach's 10-hour adaptation of Dostoevsky's *The Idiot* to a 1½-hour version of *The Brothers Karamazov* by Valerii Fokin, which digests the famous bits of the novel and tells you everything you need to know about Dostoevsky but were afraid to ask. By contrast, in the audience, the sound of mobile telephones and pagers shows up the "new Russians".

Slowly recovering from an overdose of Big Macs and equally indigestible American cultural fast food, Russians are turning to homemade products. The Mexican soap operas which accompanied the transformation of Russia into a third-world economy are no longer in vogue.

"People watched so many Mexican soaps that they got to know more about Mexico than about their own country," says Elena Gremina, the co-writer of the first successful Russian TV serial. "People miss the sound of their own language."

Gremina's 48-part series is based on the 19th century best seller *Petersburg Mysteries: A Story of the Hungry and the Fed*. But it is mostly "the fed": noble characters, the offended maid, the femme fatale, all in period costume – and all having as little to do with contemporary Russian life as Latin American passions. On the plus side, there is excellent acting and quality Russian language.

The success of *Petersburg Mysteries* testifies to people's growing appreciation of their own cultural traditions, including those of the Soviet age. "You can knock down the monuments and rename the streets, but this is the only past we have," says Anatoly Smelyansky. Soviet relics which only a few years ago were so keenly obliterated are now back in fashion.

Unlike many other political parties, the communists did not have a media advertising campaign in the last parliamentary elections. Nor did they need one. A nostalgic wave of Soviet songs and films was enough to accompany their victory in December.

Should the communists come to power in June, they are likely to restore not the cinematic illusion, but the grim reality not projected by socialist-realist films.

Arkady Ostrovsky is a book and theatre reviewer for the FT

■ **Agriculture:** by Sander Thoenes

Privately better off

Productivity has fallen at most farms registered as co-operatives or companies

Fat and healthy: a cow on a privately-owned farm — Picture: Sander Thoenes

At the private farms that used to be part of the Vilyams State Farm in the Rostov region of southern Russia, many of the 350 farmers have bought new cars, built new homes and earned more than Rbs30m ($6,000) each last year. The fields are ready for spring sowing, the cows are fat and shine with health.

"We gathered all the people who really wanted to work," said Mr Andrei Nesterov, a vet at the Kuznetsov association of 12 former Vilyams employees. "At the state farm we couldn't be bothered to work. Now we don't fool around. We are working for ourselves."

At the nearby Lenin Collective, a one-time model farm that used to host scores of foreign delegations, most of the 1,850 employees make about Rbs1m annually and would go hungry if not for their private one hectare garden lots where they hold chickens and grow vegetables. Many of the fields lie abandoned. The cows are skinny and their haunches covered in grey scabs.

"This used to be a wealthy farm, and now there is nothing," complained Mikhail, a tractor driver at the farm. "The farmers who left are doing fine, and we have nothing. If I had known it would be like this, I would have left too."

The farmers at Vilyams, named after a famous Russian agronomist of British descent, are the exception. Although there are an estimated 283,000 private farms in Russia, including 16,000 in Rostov, they hold only about 40 hectares each on average and many are struggling to make ends meet.

But they are better off than most members of the 26,000 state and collective farms which still control more than 90 per cent of Russia's farm land. Most farms merely re-registered as co-operatives or companies.

The only thing that has changed, other than the name, is productivity. The grain harvest of 1995, at about 65m tonnes, was half of 1970s levels; production of meat and milk has dropped about 50 per cent in recent years.

The market has been flooded with food imports, causing the government to raise import tariffs even though it admits that domestic producers can barely meet 60 per cent of the country's needs. The collapse of agriculture has slowed down economic recovery in other sectors; the Rosselmash factory in Rostov, for instance, sold only 6,000 harvest combines last year, down from 50,000 a few years ago. Agricultural subsidies still swallow 11 per cent of Russia's depleted federal and regional budgets.

Mr Boris Yeltsin, Russia's president, in March signed a decree ordering local officials to speed up the privatisation of land, reaffirming a farmer's right to break away from a state farm and sell, mortgage or lease his land share. "This is a powerful step forward toward real private ownership of land," said Mr Alexander Zaveryukha, deputy prime minister. "Until now, a farmer became owner only nominally, but in reality he did not."

In regions like Rostov, however, many officials prefer to wait to see who will win June's presidential elections before making commitments to politically sensitive land reforms. The ratings of Mr Gennady Zyuganov, the Communist party chairman who has made no secret of his opposition to private land ownership, are close to Mr Yeltsin's. "It's a bad decree," grumbled Mr Victor Tkachev, deputy chairman of the Lenin farm. "It's just an election campaign gimmick. Nothing will actually happen."

The International Finance Corporation, a member of the World Bank Group, has sent 250 staff into six regions to help state farms go private. Funded mainly through nearly $21m in grants from the British Know How Fund, the IFC has assisted in 104 farm re-organisations and hopes to privatise another 50 before sowing starts in April. Re-organisation frees farm members to break away and found a family farm, or to combine land shares and form a co-operative or company with other members. Pensioners, who make up about half of all farm collectives, can rent out their share to private farmers who need more than just their share to make a profit. Pensioners at Vilyams earn over Rbs1m a year in rent, though much of it in kind, such as flour and free health care.

"We don't pretend it's a panacea," said Mrs Catherine Gorodentsev, project leader for the IFC in Moscow. "It's a first step."

But it is a step into the dark. The lack of legislation has kept land sales and mortgages all but impossible in most regions. Banks, hurting from too many bad loans, have become loath to take harvests, equipment or farm houses as collateral. Prices of equipment, fertiliser and herbicides have soared because too few private traders have started competing with formerly state-owned suppliers.

Meanwhile, farmers have little choice in selling their produce to food-processing plants, which have maintained ties with large state farms and keep prices down. The price of milk, for instance, has stayed absurdly low at Rbs800 for more than a year; in response, many farms have sold or slaughtered their cows.

Mr Yury Klimenko, head of international relations at the AKKOR association of private farmers, estimates that only about 15 per cent of private farmers, mostly those who managed to take equipment from the state farm and obtain cheap credits in 1991 or 1992, are making a profit.

Daunted by such prospects, a growing number of the farms privatised by the IFC actually stays united, much as they used to be. "People are taking a wait-and-see attitude," Mrs Gorodentsev says. "A lot of farms in the east are not doing anything."

At least one team of farmers at the Lenin Collective has tried to take its land share and leave, but their farm is one of thousands of state and collective farms throughout Russia that are banned from breaking up. Frustrated, many pilfer spare parts of farm equipment for a bottle of vodka; recently a whole tractor disappeared.

"We should not be waiting, but this collective will be the last to go," predicts Mr Fyodr Kuzekbayev, in charge of 24 idle grain sifters at the Lenin Collective Farm. "We will hold on until we collapse. And only then will we reform."

How they compare: facts and figures

In Russia, there are 283,000 private farms and 26,000 owned by the state, according to AKKOR association of private farms and the International Finance Corporation, Sander Thoenes writes. They farm respectively 12m and 150m hectares and employ 800,000 and 10.1m. According to Mr Alexander Zaveryukha, deputy prime minister, the production share is: vegetables 88 per cent private and 12 per cent state; potatoes 82 per cent and 18 per cent; milk 42 per cent and 58 per cent and meat 48 per cent and 52 per cent.

In Rostov, the regional government says that there are 16,000 private farms working 640,000 ha and 900 state farms working 6m ha.

In Vilyams/Lenin, there are: 350 private workers, 1,850 state farmers; 340 private pensioned members and 1,000 state pensioners. Hectares of farmland: 10,380 (private) and 25,600 (state). Annual income per farmer: Rbs20-35m (private) and Rbs1m (state). Rent per landshare: Rbs1.25m (private) and Rbs13,000 (state).

Precise figures for harvests and the number of cows and pigs are unobtainable. Vegetable production and the number of cows in private gardens, though estimated to be at 30 per cent of total levels, do not appear in statistics. A drop in the number of cows can be largely attributed to their being moved to garden lots, for instance. In addition, state farms have under-reported production and sold the difference to private traders.

GUM, Russia's most famous department store, offers a lively example of the country's burgeoning market economy — Picture: James Hill

■ **A business traveller's guide to survival in Moscow:** by Chrystia Freeland

Comforts for the well-heeled

A comparison of destinations found Moscow to be the world's most expensive city

In the 1840s the Marquis de Custine, whose account of his Russian sojourn has become a classic, described the local hotels as "ornamented stables" and advised the fathers of wayward sons to send them to Russia because "whoever has well examined that country will be content to live anywhere else".

A century and a half later, travelling to Russia, especially its hinterlands, can still be a test of wits and endurance. But nearly five years after the collapse of communism, in the bigger cities Russia's fledgling market economy can now offer the well-heeled business visitor most of the comforts of home.

The biggest catch is a complaint which Russian President Boris Yeltsin is likely to hear on the campaign trail from his own citizens: in contrast with the endemic shortages of the USSR, an almost unlimited array of goods and services is available in the new Russia, but often at prices which are steep for western visitors, not to mention the impoverished local population.

Earlier this year, an international comparison of business destinations found Moscow to be the world's most expensive city. The survey, by EuroCost-Luxembourg, estimated the average cost of a 24-hour stay in Moscow at $543, putting the former Soviet metropolis ahead of capitalist bastions such as Tokyo ($516), London ($352) and New York ($342).

Hotel bills are the most expensive part of a trip to Moscow, which now boasts dozens of lavish, recently renovated establishments. The most glorious of the lot – and one of the most pricey at $342 per night plus tax for a single – is the Baltschug Kempinski (tel:7-501-230-9502) whose star attraction is panoramic views of the Kremlin.

For visitors who want to be in the very centre of town, two luxurious and historic options are the National Hotel (tel:7-095-258-7000), which charges $256 plus tax per night for a single, and the Metropol (tel:7-501-927-1000), where single rooms cost $310 a night plus tax.

Business travellers trying to cut costs could try one of Moscow's more modestly priced, mid-range hotels like the Tverskaya (tel:7-095-258-3000) where singles are $230, plus tax, or, a bit further from the centre, the Aerostar (tel:7-502-224-1104) where singles, with breakfast, cost $235 plus tax.

Visitors eager for a taste of the old Soviet-era Russia, before the arrival of slick western consumer culture, can dare the Hotel Ukraina. Housed in one of the seven Stalin skyscrapers which dominate the Moscow skyline, the Ukraina is impressive from the outside and at $90 per night plus tax for a single room it is a bargain by local standards. But inside, it offers a genuinely Soviet experience, with lumpy beds, grimy bathrooms and telephones that ring late at night offering guests the companionship of "pretty ladies".

Moscow also now offers a wide variety of restaurants. For an elegantly prepared, Russian-style meal, one of the best choices is 011 (tel:209-0963) a centrally-located restaurant decorated to resemble a 19th-century Russian drawing-room. Main courses average $20-$30. One of the most popular local hang-outs is Santa Fe (tel:256-1487), a large, boisterous Tex-Mex eatery, where young, prosperous Russian go to show off their newest outfits. The city's best Italian food is served at Il Pomodoro (tel:924-2931), a relaxed, cheerful restaurant whose Italian proprietors import many of their ingredients from home.

The wrenching transition to a market economy has bred a frenetic business culture in Moscow, where most business travellers race from one meeting to the next and late night appointments are not uncommon. But visitors who make the time to enjoy some of the cultural and historical sites of Moscow will be rewarded by a society which is slowly reawakening from 70 years of communist hibernation.

After visiting the Kremlin, a palimpsest created by medieval Russian tsars and Soviet commissars, a walk across Red Square to GUM, Russia's most famous department store, offers a lively example of the country's burgeoning market economy. And Russia's rich cultural legacy is on display at the recently refurbished Tretiakov Museum, whose collection of Russian art ranging from icons to the avant-garde of the 1920s and 1930s have made it the beloved museum of Muscovites.

More adventurous business travellers can venture out to the open-air Izmailova market, on the outskirts of town, where Russian folk artists and central Asian rug merchants ply their wares.

Some business visitors may be reluctant to venture out into the city, or to travel to Russia in the first place, because of a recent spate of high-profile gangland style assassinations of Russian financiers. Fears have mounted after the death earlier this year of Mr John Hyden, a Scottish lawyer, who was caught in the crossfire of one such battle in a posh St Petersburg cafe.

Although crime rates in Moscow and other main Russian cities are still considerably lower than in the west, business travellers may be more aware of violence in Moscow than in a city such as New York because of the savage character of much of Russia's business world.

The best protection is to avoid shady deals, but some western travel agents are prepared to provide armed bodyguards for their clients. Other sensible precautions include being met at the airport and not hailing taxis on the streets, especially at night.

PROFILE Aman Tuliev

Militant coalminers find a new hero


Aman Tuliev could become one of the most influential politicians in Russia Picture: Reuter

Five years ago, the militant miners of the Kuzbas coalfields in western Siberia propelled Russian President Boris Yeltsin into the Kremlin by staging a protracted strike which helped to unravel the Soviet Union. But today, the Kuzbas miners have a different hero: Mr Aman Tuliev, one of the most prominent figures in the communist coalition which is leading the polls ahead of the June presidential ballot.

In one of the clearest signs of the dramatic shift in Russian politics, in the December parliamentary elections, the Kuzbas, which was once fervently behind Mr Yeltsin, voted 48 per cent for the Communists, the highest level of support anywhere in Russia.

Much of that victory can be attributed to Mr Tuliev, whose smiling, charismatic public persona belies the stereotype of communists as grey holdovers from the Soviet past.

"The miners have understood that they were deceived by Boris Nikolaevich, he *rode into power on their backs* and now he has forgotten them," Mr Tuliev explains.

Mr Tuliev's energetic speaking style, which contrasts with the often monotone performance of Mr Gennady Zyuganov, the Communist leader, has made him the darling of the rank-and-file party activists who selected him as the left's "reserve" candidate for the presidential elections.

This popular following means that if the Communists win, Mr Tuliev, a 52-year-old *former railway boss who is* often touted as a potential prime minister in a leftist administration, could become one of the most influential politicians in Russia.

But, despite his reputation for straight-talking, it is unclear what Mr Tuliev will do if the elections fall his way.

Like most of Russia's senior communist politicians, just two months ahead of the presidential poll, Mr Tuliev carefully straddles a line between traditional communist policies and a modern social-democratic stance.

This enigmatic approach appears designed to attract professional and business voters, without alienating the old-fashioned, hard-core communist constituency, but it also makes the policies of a left-wing administration almost impossible to predict.

On the one hand, Mr Tuliev, who is generally seen as a member of the hard-line wing of the communist bloc, has an almost perfect record of opposition to Mr Yeltsin and his reform team.

Mr Tuliev was already a fierce Yeltsin opponent in 1991, when he was elected Russian president at the peak of his *popularity. The Siberian railwayman* went on to oppose Mr Yeltsin at another turning-point in Russian politics: the October 1993 stand-off between the president and the conservative parliament.

But despite this history as a hardliner, Mr Tuliev is today doing his best to come across as a moderate on economic issues.

He is in favour of a sharp cut in taxes, which he says have forced even the best-intentioned businessmen into shady practices in order to survive.

He attacks Mr Yeltsin for making "populist promises" because they will lead to a new wave of inflation. He is opposed to re-nationalisation of enterprises which have already been sold off to private owners.

In a slogan which even Milton Friedman would probably approve, Mr Tuliev argues that:

"We should not argue about how to divide the pie, instead we should concentrate on making the pie bigger."

Indeed, instead of portraying the contest between Mr Zyuganov and Mr Yeltsin as an ideological clash between communism and capitalism, Mr Tuliev likes to describe it as a choice between honest, well-disciplined government (the communists) and corruption (the current regime).

"Today in Russia we have very, very weak financial discipline, we've never had such weak financial discipline in Russian history," Mr Tuliev says. "And why do we have this situation? Because there is corruption, corruption at the highest levels."

It would be easy to dismiss Mr Tuliev's sympathy with private enterprise as mere election rhetoric, but, notwithstanding his hardline image, he is popular among the businessmen of his native region.

Mr Viktor Terentiev, deputy director of the privatised Novokuznetsk aluminium smelter, says Mr Tuliev's reputation in Moscow as a modern-day Bolshevik is "a myth".

"I've worked with him since 1979 and here we see him absolutely differently," Mr Terentiev says.

According to Mr Tuliev, his friends in the Kuzbas are not alone. He says that many banks and businesses support the communist coalition, but they have requested anonymity because they fear reprisals from what Mr Tuliev describes as "our mafia state."

Mr Tuliev believes that the Kremlin's chief election strategy is to frighten off the left-wing's moderate supporters by evoking the bloody days of Russia's first communist take-over in 1917:"They try to scare people. They say the communists will win and there will be a civil war. But a war (in Chechnya) is already going on."

For the next two months Mr Tuliev will do his best to persuade Russian voters that, notwithstanding the communists' disastrous record, he and his comrades can bring peace and prosperity to Russia.

Chrystia Freeland

PROFILE: Oleg Soskovets by John Thornhill

Powerful and secretive

The senior first deputy prime minister, he is in effect number two in the government

Mr Oleg Soskovets, the first deputy prime minister who is playing a prominent role in President Boris Yeltsin's re-election campaign, is unquestionably one of the most powerful figures in the Kremlin – and one of the most secretive.

With a shock of grey in his black hair and a tenacious demeanour, Mr Soskovets bears more than a passing resemblance to a badger. The 47-year-old minister certainly prefers to work underground shunning the political limelight and declining most interviews.

Despite his low public profile, Mr Soskovets provokes strong reactions from those on the liberal wing of the government who liken him to a "prince of darkness" silently murdering reformist proposals in the shadowy recesses of the Kremlin.

Many also blame him for persuading Mr Yeltsin to sack Mr Anatoly Chubais, the government's leading reformer, making him the scapegoat for the government's unpopularity.

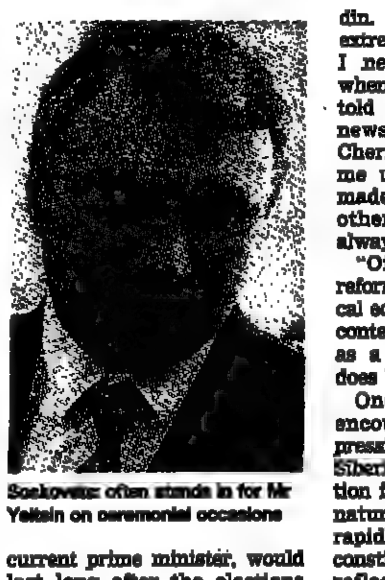
In the public imagination, at least, Mr Soskovets is closely linked with Mr Alexander Korzhakov, Mr Yeltsin's chief of security and close confidante, and Mr Mikhail Barsukov, head of the FSB (the successor organisation to the feared KGB).

This cabal supposedly favours the more conservative, authoritarian wing of government and pressed for the military crack down in Chechnya.

As the senior of Russia's two first deputy prime ministers, Mr Soskovets is effectively number two in the government and often stands in for Mr Yeltsin on ceremonial occasions. It was Mr Soskovets who greeted Queen Elizabeth 11 when she arrived on her first visit to Moscow in 1994.

He also met the Irish prime minister at Shannon airport when a tired Mr Yeltsin famously failed to emerge from his aeroplane.

It is possible that Mr Soskovets' star could rise still higher in a second Yeltsin administration. Many question whether Mr Victor Chernomyrdin, the current prime minister, would last long after the elections and believe Mr Soskovets is his most likely replacement.


Soskovets: often stands in for Mr Yeltsin on ceremonial occasions

That post might assume even more importance after the elections – especially if the 65-year-old Mr Yeltsin's health begins to fail. Under the constitution, the prime minister temporarily takes over as president if the incumbent is incapacitated. The prospect of a Soskovets presidency, however brief, sends shivers down the collective spine of Russia's liberals.

But teasing out Mr Soskovets's real political views from his public pronouncements resembles the games once played by Kremlinologists who combed the columns of Pravda trying to read the runes. Mr Soskovets publicly mouths the current political orthodoxy and the need for financial stabilisation. But he does so without much conviction and sometimes drops sly hints about the need to support ravaged industry.

Some of those who have worked with him, however, suggest he is far from an unthinking reactionary and that the private persona differs greatly from the public image.

In a recent interview, Mr Boris Fyodorov, the former radical finance minister who could hardly be considered a natural ally, praised Mr Soskovets, suggesting he would make a more effective prime minister than Mr Chernomyrdin. "I know him [Soskovets] extremely well as a person and I never had any problems when I worked with him," he told the *Nezavisimaya Gazeta* newspaper. "In contrast to Chernomyrdin, he never led me up the garden path nor made me bash heads with other ministers and was always helpful."

"Of course, he is not a reformer in the sense of political economy and expressed discontent with privatisation. But as a personality he can and does listen to the experts."

One British official who encountered Mr Soskovets pressing the flesh in western Siberia was also full of admiration for the Russian minister's natural political skills as he rapidly assimilated what his constituents wanted to say and reflected back what they wanted to hear.

Born into a family of workers in Taldy-Kurgan in Kazakhstan, Mr Soskovets trained as a metallurgist writing more than 150 technical articles and a book on Cold Rolling and the Finishing of Tin-plate.

But Mr Soskovets also showed a practical managerial bent rising to become general director of the Karaganda Metallurgical Kombinat, which was one of the giant steel-producing plants of the Soviet Union.

Like all ambitious careerists, Mr Soskovets joined the Communist party in his early twenties and was appointed minister of metallurgy just four months before the hard-line coup of August 1991, which led to the dissolution of the Soviet Union.

Afterwards he quickly moved into the Yeltsin camp being appointed to his current job in May 1993.

Mr Soskovets has maintained close ties with the metals industry and has encouraged the formation of powerful financial-industrial groups (Figs), which combine the production muscle of the giant Soviet-era industrial units with the financial strengths of new commercial banks.

Rumours of corruption have dogged Mr Soskovets during his time in office – although these claims have never been substantiated.

PROFILE Rem Vyakhirev

Fighting his corner


Rem Vyakhirev: the chairman

The world of Rem Vyakhirev, the chairman of Gazprom, Russia's richest and largest company, is nothing if not expensive.

In recent weeks he has turned up in locations as varied and exotic as Turkmanistan, the gas-rich former Soviet republic on the Caspian Sea, and the Mansion on Turtle Creek, the swankiest hotel in Dallas, Texas.

He and his company's interests are equally varied. Gazprom is the world's largest natural gas producer, controlling about a fifth of total global reserves. The largest gas exporter to western Europe, it keeps thousands of factories humming and tens of millions of houses heated across Russia, the former Soviet republics and in countries throughout western, central and eastern Europe.

Gazprom subsidiaries run farms, hotels, shipping companies, airlines and food processing factories. Next year it launches its first telecommunications satellite to keep the various bits of its far flung empire in touch. Its 360,000 or so employees are seen as being the most fortunate in Russia, although even that distinction has not prevented them at times from having to wait months, like most other Russian workers, for their wages.

Presiding over this empire from a set of luxury offices within Gazprom's new $150m skyscraper on the edge of Moscow is Mr Vyakhirev, a diminutive man, who, as a communist *apparatchik*, spent a lifetime in technical and managerial positions within Russia's oil and gas industries.

Critics say he owed his position to political patronage. Mr Viktor Chernomyrdin, the prime minister, was his predecessor and remains a close friend. "We have a wonderful personal relationship," he says.

But Mr Vyakhirev fiercely rejects charges that the prime minister shows favouritism to the company. "Gazprom is his alma mater," says Mr Vyakhirev. "And like all older people he has nostalgia for it. And he also knows this industry better than others. But if Mr Chernomyrdin had to choose between Gazprom and the state, of course he would choose the state."

So is Mr Vyakhirev also nostalgic for the past? After all, he continues to list communist era credentials in his curriculum vitae, such as the distinction of being an "honorary gas worker". His pride in the past achievements of the former Soviet gas industry is obvious, as is Gazprom's extensive attention to the social aspects of its operations. But Mr Vyakhirev says he "does not expect anything good" from a change of regime in the June presidential election.

He also appears to have retreated from the Soviet era boastfulness that marked Gazprom's first contacts with the western business world. The notion that Gazprom must take its time in learning how best to work with the outside world, and in particular with potential foreign investors in the company pops up repeatedly in Mr Vyakhirev's conversation. At times he likens Gazprom to a simple schoolchild. He also speaks of Gazprom having to earn the "trust" of potential foreign investors over the next several years. "We'll wait patiently until people get to know us."

Such suggestions of innocence and ignorance do not extend to Mr Vyakhirev's understanding of the international gas market, however. Some western gas companies believe that he and his small group of senior advisers could set off a European gas price war in the next few years. They claim that Gazprom wants continued security with long term contracts with big companies such as Ruhrgas in Germany, but at the same time is determined to undermine such stable relationships by undercutting them through establishing new joint ventures, such as Gazprom's partnership with Wintershall, the gas subsidiary of the giant BASF chemical group.

Mr Vyakhirev is adamant *Gazprom understands the new* answers of its sales strategy. His temper is tested by such arguments. "Why should I be stupider than any western gas salesman," he demands. "I want to live like any gas salesman from Norway, the UK or Algeria. We want to sell gas as expensively as possible."

As for Gazprom's future Mr Vyakhirev says it should prove bright whatever the political circumstances. "No matter who is in power, they won't start dividing the pipelines," he says. "The system cannot be disturbed," and exports to the west will not be endangered. Mr Vyakhirev may also be proved right in his conclusion that Gazprom is simply too powerful and too important to be tampered with. But as many observers point out, it is also simply too big and too rich to be ignored.

Robert Corzine

■ **Oil industry: by Robert Corzine**

Western groups proceed with care and caution

Russian companies will still continue to have need of more foreign investment

The future structure of the Russian oil industry remains uncertain, with both domestic and foreign executives awaiting with some trepidation the outcome of the June presidential election.

The re-election of President Boris Yeltsin would, many Russian executives say, mean a continuation of the process that has resulted in the creation of powerful, vertically integrated oil companies, a number of which are now affiliated to Russia's leading banks.

Views of the impact on the industry of a communist victory are mixed, however. Mr Sergei Muravlenko, the head of YUKOS, the second largest oil company, says, a communist victory could result in certain corrections, perhaps, but not "a 180 degree turn away from past policies." Mr Vagit Alekperov, the head of LUKoil, the largest Russian oil company and the most internationally active, is confident the present structure has proved itself.

Both men cite signs of stabilisation in oil production, after years of steep falls, as proof that the vertically integrated structure is working, although many of the new holding companies are still struggling to take full control of the subsidiary production associations which run individual oil fields. Mr Muravlenko believes that the prestige of the industry is higher now, in spite of the decline in production.

Others say the industry has been badly tarnished by the loans for shares scheme introduced last year by the government. Large parts of some oil companies were snapped up by banks willing to lend the government money in exchange for shares.

Such ties between the banks and the oil companies have not been entirely unwelcome, however. YUKOS, for example, says it is happy with its relationship with Menatep, the bank with which it is affiliated. Menatep provides the financial skills which were missing within YUKOS, executives say. "We told Menatep that we have great experience in production, and you are skilled in financial matters," said Mr Muravlenko.

Such marriages of industrial and financial muscle may make sense in Russia, where even the largest companies are still trying to master capitalist techniques but some potential western investors are more cautious in their assessment, fearing that in some cases the banks see the oil companies as "cash cows" ready to be milked.

The inclusion of more sophisticated financial skills within the Russian companies will also not eliminate their need for foreign investment to fund new projects. LUKoil, for example, says it has sufficient resources with which to maintain domestic production. It needs additional cash and western investors, such as Arco of the US, to fund its ambitious list of new development projects in Russia and other former Soviet republics.

Other companies have also paired off with western partners. YUKOS has linked with Amoco of the US, upon which it has also modelled itself.

Big western investments are dependent, however, on the creation of an acceptable production sharing law, an issue that is too politically sensitive to be resolved before the election. The legislation which has emerged from a long and painful parliamentary process is seen as flawed by most international oil companies. They remain sanguine, however. "It was a giant step from where they were, so does it really matter that they missed the step by half an inch? We can remedy that," one western oil man observes.

Some Russian companies, including YUKOS have lobbied strongly for a law that would allow large western-financed projects to proceed but no big project is likely to begin until a number of amendments to the legislation are made.

> There is no certainty the tax regime will be stable enough to take risks

There is still no certainty that any tax regime will stay stable enough for companies to risk billions of dollars, and no agreement on binding international arbitration in the event of disputes.

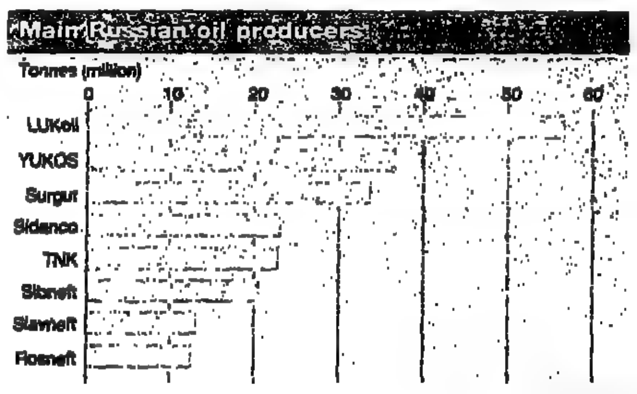
Western worries have been fuelled by the problems encountered by the few foreign-funded projects which have begun to operate in Russia, such as Conoco's Polar Lights joint venture. This has had a number of new taxes applied to it in recent years, all of which have seriously undermined its viability. The project is now cash positive, say Conoco executives, but no dividends have been paid to the shareholders. "Normally the first international company to enter a previously closed country is the big winner," said one Moscow-based oil man, "but that is not the case in this country." Western groups also worry than any market openings may prove short-lived. "They may let us in for five years and then kick us out," says another executive. Confidence has also been undermined by cases where agreements with the Russian government have been torn up.

But some big oil companies concede that they have not done enough to rally support for foreign investment. There is widespread suspicion of western oil companies in Russia, in part because they have failed to get the message across that oil investments will create thousands of jobs in Russia, says one executive. Some foreign oil companies have also demanded assurances from the Russians that would not be required in many other parts of the world. Smaller foreign companies appear to be more willing to take on higher risks, although the projects in which they are engaged are relatively small in scale.

The legal and tax framework is not the only worry for potential foreign investors in the oil sector. Transporting oil to export markets is also problematic. Transneft, the monopoly operator of the big export pipelines, is "unpredictable, expensive and an environmental nightmare," says one executive. Even with such problems, most of the big western companies seem prepared to stick it out in the hope that the business climate will improve after the election. "When you are working on a 50 year project, what is another month, three months or six months?" said the head of a US group.

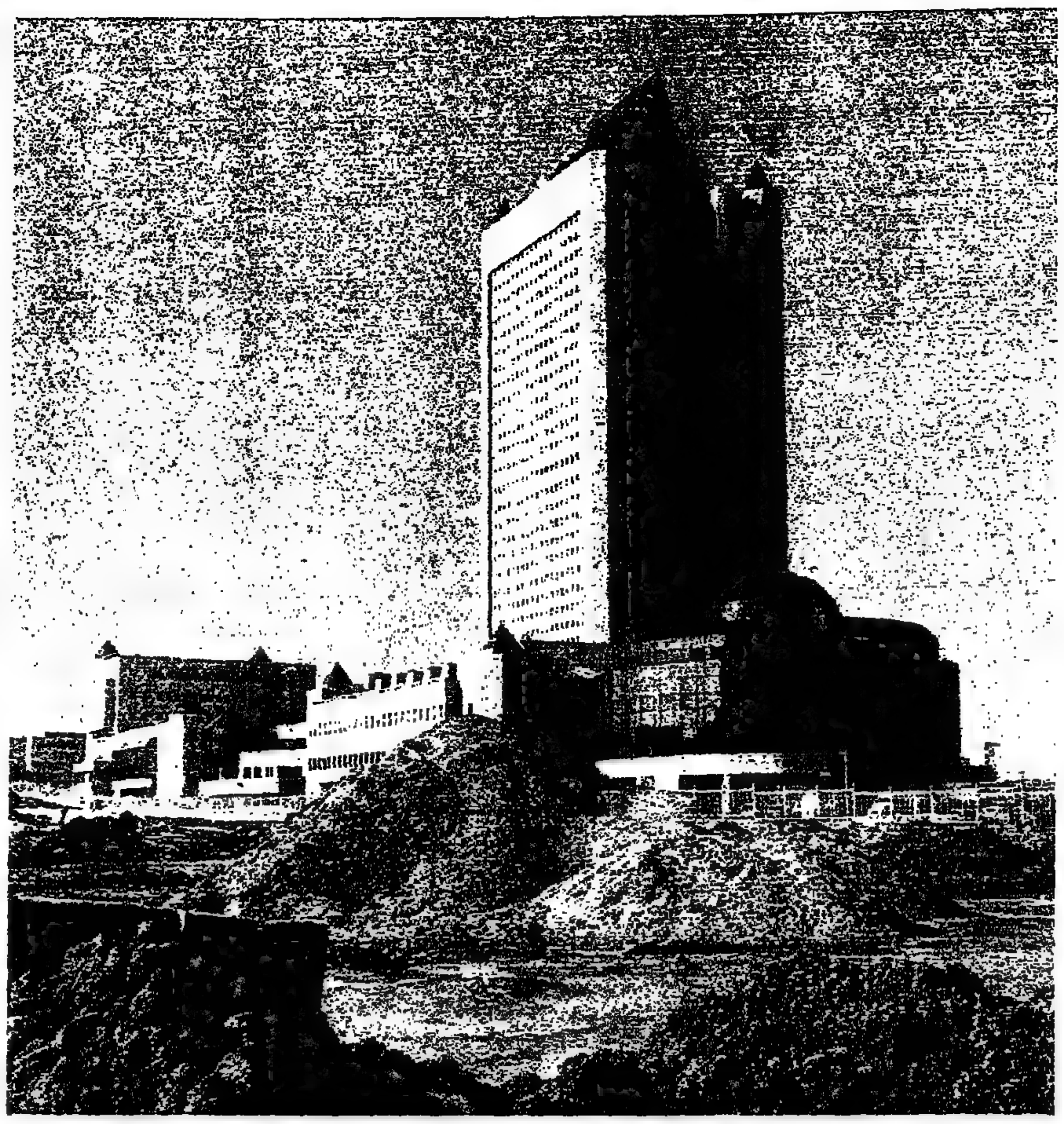
Others say that even if Mr Yeltsin is elected, it could be 12-24 months before the first big foreign-financed project is under way.

Main Russian oil producers



Source: Company reports and Salomon Brothers

1995 figures



The Gazprom building: the house that Gaz built on the edge of Moscow and headquarters of the world's largest natural gas producer — James Hill

■ **The north: by Robert Corzine**

El Dorado still untapped

Moscow politicians worry about a division being created with the rest of Russia

The thousands of kilometres of snow-swept tundra in Russia's Arctic regions hide a treasure trove of oil, natural gas and other resources.

Some inhabitants of the far north believe it will only be a matter of time before the development of such resources transforms the sparsely populated area into another Kuwait or United Arab Emirates. Others, citing the total absence of roads, railways and other infrastructure in much of the area, are less optimistic.

But few dispute that the northern economy could "slowly die" without a massive injection of investment in the region's natural resources.

Many inhabitants of the far north are clearly struggling to come to terms with the new Russia.

In the Nenets autonomous area, some 1,000 miles north-east of Moscow, 7,000 Nenets, a nomadic people, live off the reindeer herds that move across the bleak tundra.

In the Soviet era not only did the government buy all the reindeer meat they could produce, but it also sent helicopters to transport it to market.

Now the Nenets are discovering what market forces mean in a remote Arctic area. Some sit for days outside the oil exploration camps that dot the region in the hope of selling the frozen sides of reindeer meat that are piled high on sleds.

"Most, however, just don't know what to do with their venison," says one local official. "Nor do those on remote settlements on islands in the Pechora Sea know how to pay for the firewood needed to sustain them through a winter."

Those at the opposite end of the technological spectrum are finding the going equally tough. Many of Russia's nuclear submarines were built near the port city of Archangel. But those orders have dried up and civil contracts are rare and unpredictable.

The discontent in the region caused many people to support the ultra-nationalists of Vladimir Zhirinovsky in last year's parliamentary elections.

But it is hard to see how the north can be developed by Russian efforts alone, especially when it comes to exploiting the oil and gas reserves which, many officials say, is the only certain way to kick start the economy.

Some officials see oil and gas as a panacea. They say revenues from royalties could subsidise the traditional way of life of the Nenets and Komi, the other nomadic people in the far north, while billions of dollars in western investment would breathe new life into the moribund factories of Archangel and smaller settlements.

Certainly there is no shortage of development proposals from US, French and other foreign companies. A number of large oil and gas fields were discovered by Soviet geologists, although only a few were developed because of the remoteness of the area, the complexity of the reservoirs and the Soviet oil industry's focus on the giant fields of western Siberia.

But the north's very remoteness is an attractive feature to some western companies. No big Russian oil companies operate in the area, so "unlike, western Siberia, we're not stepping on anyone's toes," says one western oil man.

"And there is no risk that the oil is not there," according to Mr John Capps, the head of Conoco's Polar Lights, one of the few western-financed projects which is up and running in the north.

In addition the quality of the oil in the far north tends to be high, although exports from the region are currently mixed in the main Russian pipeline system with lower grade crude oils and therefore do not attract a premium price.

That situation could be remedied, however, if a dedicated export pipeline from the region is built. Such a scheme appeals to many foreign oil companies which are wary of the bottlenecks and environmental disasters which have occurred in the old Russian system.

Both Russian and foreign oil men say the area's potential will never be fully exploited until a regional transportation solution is agreed on. Not surprisingly many in the region argue strongly in favour of a dedicated northern terminal that would boost the local economy and allow oil exports to be sent directly to northern European markets.

Such schemes have caused concern among some Moscow politicians, wary of any project that might reinforce the separation between the far north and the rest of Russia. Neighbouring republics to the south, such as the Komi republic, are also critical of a northern route, as they want the pipeline tariffs that would result from a pipeline to the south.

> The federal government will have to support the cheapest transport solution

Mr Vladimir Bytova, an entrepreneur and politician in Naryan Mar, the administrative centre of the Nenets region, dismisses fears that a northern route would loosen ties to the rest of the country. He argues that the federal government will have to support the cheapest transportation solution, which he says will be a northern route.

Like many in the north, he believes large-scale development of oil and gas will be needed to provide jobs to the area's young people. Mr Bytova started his business career by selling reindeer horns to South Korea. But he says "young people now don't have the same opportunity to start a business."

The consensus on the importance of developing the area's resources does not extend to who should benefit most from their exploration. Most of the oil fields, for example, lie in the Nenets Okrug, an autonomous area with a population of only 46,000, of which about 7,000 are indigenous Nenets. Under the present system it would share most of the wealth with the federal government in Moscow.

But little income would accrue to the more heavily populated region around the port city of Archangel, which already acts as an administrative, technical and support centre for western oil companies operating in the Nenets Okrug.

Some politicians envisage a single government for the far north. That, they say, would give the area a stronger voice in Moscow and justify demands for a bigger slice of the revenues from natural resource developments.

But for others any scheme to share the wealth more widely would mean putting an end to their dreams of creating a Russian Kuwait.

INTERNATIONAL HOTELS

Serious competitors vie for global status

Big hotel companies are busily making cross-border deals in their quest to transcend their national origins. Scheherazade Daneshkhu reports

At a recent presentation in a London hotel an Italian hotels company announced it had struck an agreement for a Scandinavian-American counterpart to grant it the franchise to run a Scottish hotel it had recently purchased.

A deal involving such a variety of nationalities – the Italian Bonaparte group, Radisson SAS of the US and Sweden, and the Airth Castle hotel in Stirlingshire – is typical of an industry as international as the hotels business.

Although cross-border ties are becoming an increasing feature of the market, there is still no single hotel group that is really global, according to the Economist Intelligence Unit. It found that the most geographically widespread companies were represented in less than a third of all countries, leaving a lot more ground to cover before any company can lay claim to being truly global.

Instead "the international industry is heavily influenced by a small number of big participants", according to the EIU. Holiday Inn, ITT Sheraton and Marriott are in the strongest position to reach global status.

The largest groups in the international hotels industry are striving to achieve this goal. They are seeking to expand principally through franchise or management contracts. Their growth is being propelled by the revival of business travel and an increase in worldwide tourism, although regions are at different stages of recovery. The US is the most advanced while many European countries are still relatively depressed.

With the larger economies recovering from recession, the world hotel market has bounced back, according to the hotel consultancy Pannell Kerr Forster Associates. "After years of crippling price competition and low occupancy rates around the world, only those regions dogged by political instability or terrorist activity, such as the Middle East, or experiencing economic slowdown, such as Germany, are still being squeezed," says Mr Alan Hopper, PKF's chairman.

Hogg Robinson, the business travel agent, conducts an annual survey of room rates paid by its customers which this year concluded that an upturn in business travel worldwide has led to a thriving hotel industry worldwide. Increases in the average amount paid by travellers last year reflect a level of demand not experienced since a peak in 1986 according to Mr Mike Gates, director of central services at Hogg Robinson.

"Given the high level of hotel capacity during the last 10 years, customers have been in a good position to negotiate the most competitive room rates," he says. "However, the recent increase in demand has now created a sellers' market and hoteliers are starting to maximise their yields."

Added to the recovery in business travel is growth in tourism – an industry which is widely expected to be the world's largest by the turn of the century. "Business demand has matured and is following a cyclical pattern," says Mr Paul Slattery, leisure analyst at Kleinwort Benson, the investment bank. "Leisure demand has the most potential to grow and in the US, hotel companies have been building leisure resorts. This has not happened in the UK, the other major hotels market, where hotels have instead lost out to non-hotel forms of leisure accommodation such as Center Parcs."

Leisure demand has yet to develop in other parts of the world, says Mr Slattery, who believes the next big market will be the Far East. "The potential is almost frightening. Forget about the international traveller and think about Chinese people travelling within China and how many hotels will be needed to accommodate them. The same will be true of India."

Mergers are flavour of the month

With such growth factors, hotel companies are keen to seize every opportunity to grow in what has become a very competitive market. Mr Jim Fisher, vice president of development at Marriott International says: "Our goal is to become a global company not a regional one." He believes the key to expansion outside the US lies in the relatively small proportion of branded hotels overseas compared to the US.

In the US 70 per cent of hotel supply is part of a branded chain, but internationally the proportion is roughly 20 per cent, giving companies seeking a worldwide brand scope for mergers and acquisitions as well as franchising and management agreements. "There is a very significant push towards consolidation among the major brands internationally and we see a significant opportunity to realise our goals," says Mr Fisher.

The Asakusa Hotel in Tokyo: the Far East will go on growing Glyn Genin

That consolidation, along with branding and international affiliation, has been a notable feature of the industry in recent years. ITT Sheraton's acquisition of Ciga, the Italian luxury hotel chain and Forte's purchase of Méridien in 1994 were followed last year by a number of other mergers. These include the purchase by Dusit Sindhorn, a Thai company, of 50.2 per cent of the Kempinski German luxury hotel group and the acquisition by Singapore-based CDL Hotels Group of the Copthorne hotel chain from Aer Lingus, the Irish state-owned airline. Marriott International filled a gap at the luxury end of its portfolio by taking a 49 per cent stake in Ritz-Carlton, the Atlanta-based group.

Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, accountants, believes strategic alliances will increase and will be driven by a variety of factors. These will include the ability to plug gaps geographically and to strengthen a segment, whether at the upmarket, midmarket or budget end. Such alliances allow companies to make cost savings because of their greater combined purchasing power and a lower requirement for investment in information technology for the development of reservations systems.

Information technology is undoubtedly the major challenge facing the industry, says Mr Kyriakidis: "Hotel groups invest between $20m to $50m per annum in an area that is outside their core skills. The result is often systems that do not deliver or are barely able to keep up with the technology demanded by the consumer." Smaller hotel groups feel threatened by the largest hotel chains owing to the costs of developing central reservation systems. Some hotels, particularly independent ones, have formed marketing consortia, such as Relais & Chateaux or the Leading Hotels of the World.

Others have teamed up with larger companies. When the fledgling, privately-owned Bonaparte hotel group rebranded four of its six Italian hotels as Radisson SAS in February, Mr Gianluigi Facchini, its president said: "I am expecting important strategic and operational synergies to develop… through the entry of our group into their Pierre reservation system, one of the leading computerised systems in this sector." The deal allows Radisson SAS to move rapidly into southern Europe.

Similarly, the joint venture agreement struck last year between Southern Sun, South Africa's largest hotel operator and Inter-Continental Hotels and Resorts to operate hotels in southern Africa, gave Southern Sun access to Inter-Continental's worldwide marketing and distribution, while allowing Inter-Continental rapid entry into an emerging region.

However the largest hotels deal this decade did not take place between two hotels groups. Instead the £3.9bn takeover of Forte, the UK's largest hotels group was by Granada, the UK television and leisure company. It aims to integrate Forte's roadside restaurants and midmarket and budget hotels – Posthouse and Travelodge – with Granada's own operations.

The company intends to dispose of Forte's international hotels – the Exclusive and Méridien groups which have a book value of £1.6bn – and to sell Forte's 68 per cent stake in the luxury Savoy group of hotels. This presents many companies and wealthy investors with an opportunity to reinforce their presence in markets in which they are not well represented. Granada's preferred option of selling to a single buyer raises the prospect of an interesting auction.

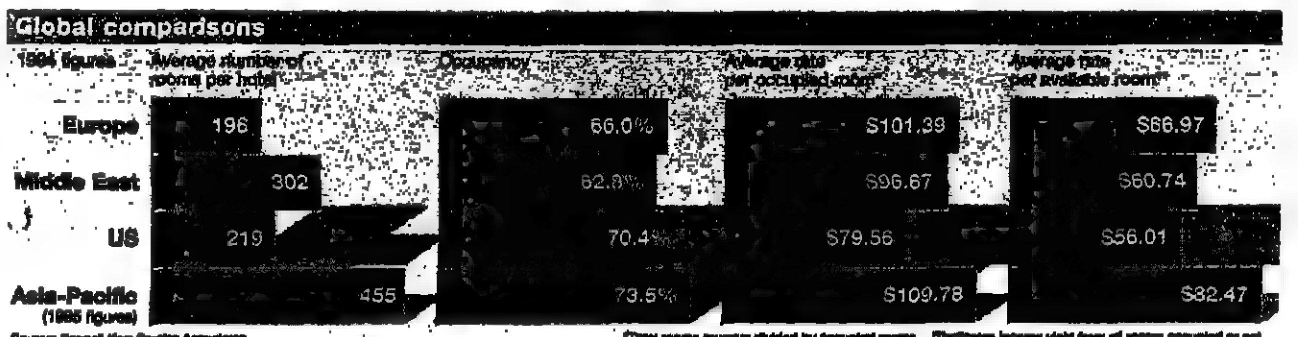
The industry is hoping for another good year although according to Mr Gates, the early signs are that business is not as buoyant as last year. He says: "1996 will undoubtedly prove a good year for hoteliers. They should not expect the phenomenal success of 1995 but trade will almost certainly surpass that of 1994."

The international hotel industry by Graham Todd and Sue Mather is published by EIU, 15 Regent Street, London SW1Y 4LR, £375

IN THIS SURVEY

Editorial production: Jonathan Guthrie
Graphics: Robert Hutchison, Steven Bernard

Global comparisons



Source: Pannell Kerr Forster Associates *Total rooms revenue divided by occupied rooms **Indicates income yield from all rooms occupied or not

■ **US:** by Lisa Bransten

Profits chase prices upwards

Rate increases rather than occupancy growth are pushing up profits

Two years ago a visiting colleague of Mr Bjorn Hanson had no trouble finding a place to stay for a business trip to New York. Last year, however, she had to pester the management at the same hotel until they found her a room. It cost her $220 a night, nearly 60 per cent more than the year before.

That experience may have been frustrating, but for Mr Hanson, who heads the hospitality practice at Coopers & Lybrand, the US consulting and accounting firm, it was hardly surprising. It is simply evidence of the sharp rise in occupancy and room rates that has helped the US hotel industry achieve record profits.

"The current state of the lodging industry is as favourable as it has ever been in the industry's history," he says. But he is quick to add that for all of the positive news of the past few years, the seeds of bad news are starting to grow.

In 1991, amid a sharp downturn in profitability, most of the industry's revenue growth came from rising occupancy. Now most of the profits growth comes from rate increases.

Last year the average room rate rose about 5 per cent to $67.34, the second consecutive year where rates rose more than inflation, according to Smith Travel Research.

Mr Hanson is wary of all the good news: "When we get to those sorts of rate increases that means we're about to peak," he says. "The period (since 1993) in which every year has been better than the prior year is nearing an end."

There are signs already that demand for rooms is decreasing, even as the industry goes on a building binge. In the first quarter of 1995, Smith Travel Research found that the percentage change in room growth exceeded the percentage change in demand for the first time since the company began keeping track of the figure in 1987.

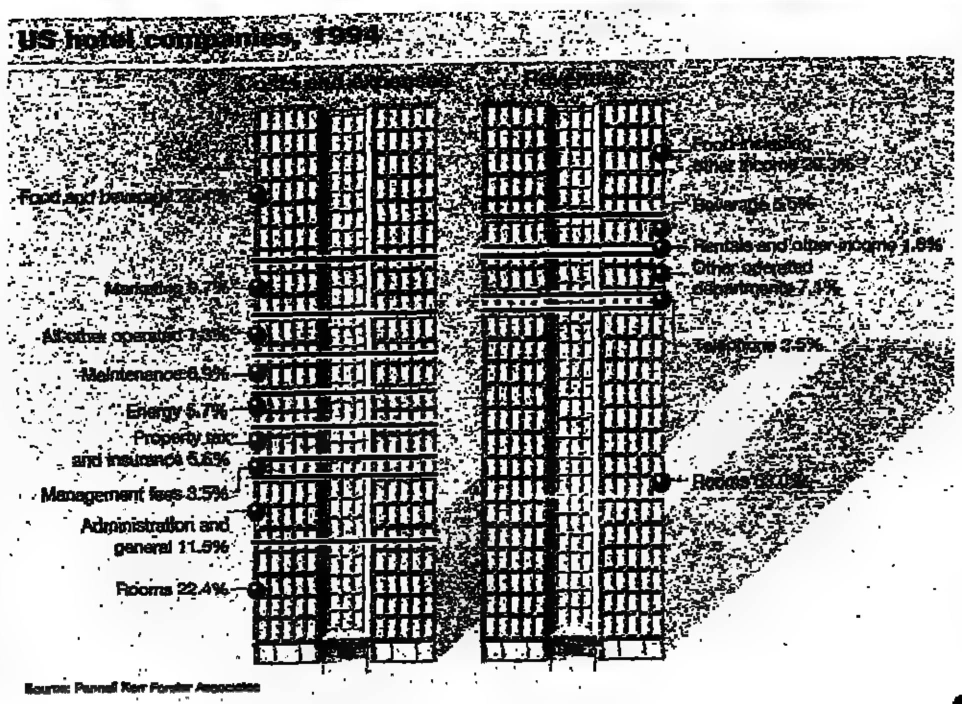
An estimated 82,000 rooms were built last year, with a similar number coming on stream this year, marking a sharp rebound from 1993 when only 32,000 new rooms were built. All that new construction comes as demand growth is expected to slow to 2.6 per cent from 3.1 per cent.

These sorts of statistics incite worries that the industry is entering another period like that from the middle of the 1980s to the early 1990s when it chalked up record losses.

But while the pace of earnings growth may slow, Mr Hanson says the industry is probably not about to start losing money. The bear years led to a period of restructuring among hotels that has made them extremely efficient.

The occupancy rate most hotels must currently achieve in order to break even is about 63.3 per cent, the lowest it has ever been. That gives management room to undershoot last year's occupancy rate of 65.5 per cent and still make a profit.

Demographic trends are working in the industry's favour: the US economy continues to shift toward the service sector, which should create more business travel; the "baby boom" generation of Americans born in the 1950s are in their peak years for earning and travelling; and the weaker dollar has brought more foreign travellers to the US.



Source: Pannell Kerr Forster Associates

■ **Europe:** by Andrew Jack

The outlook is gloomy

The main preoccupation is filling rooms in old hotels, not building new ones

As the French city of Lyon prepares to host the Group of Seven summit of international heads of government in June, its hoteliers have something to celebrate. All their rooms are already full booked for the duration of the meeting.

It is a situation of which counterparts elsewhere in France are envious. Local politicians and business executives are meanwhile fighting to raise long-term capacity by trying to find an investor to back the construction of a new high-quality international hotel.

While there are some pockets of optimism around Europe – notably in the UK, Spain and Italy – much of the rest of the continent is struggling to maintain occupancy and room rates during a testing time for the tourism industry and for local economies.

"Europe has pretty modest growth and profits," says Mr Paul Heath, an analyst with UBS in London. "Paris is very tough and Germany is extremely patchy, although it is better further south. There are boom conditions in the Spanish hotels meanwhile."

He says the priority at the moment for most hotel operators is to fill existing rooms rather than to build new ones. He adds that there is always the possibility of US chains developing a presence despite the current poor health of the property business.

Mr Heath says that the performance of the industry is largely a function of economic growth. Judging by recent downgraded estimates of 1996 growth by the leading continental European nations, prospects for the year are not very positive on this basis.

Mr Stanley Dixon, a director of Pannell Kerr Forster Associates, a consulting firm, says that one of the strongest markets at the moment is London. His latest estimates for higher quality hotels in the UK capital show levels of occupancy that are high and growing: 81.9 per cent in 1995, up 2.2 points on 1994. Average room rates rose

> Two cities enjoyed booms in occupancy last year: London and Rome

10.8 per cent to nearly £112 in the same period.

"London is booming," he says. "It is short of stock, partly because of planning regulations and a lack of sites, and partly because of the business cycle. We are in the upswing." He adds that the relatively low value of sterling has helped boost the number of visitors from abroad.

Rome was another bright spot last year. Occupancy rose to 80.2 per cent, reflecting the weakness of the lire, and average rents were up 8.2 per cent to L215,196 ($137). Equally, occupancy in Amsterdam rose 1.7 points to 71.6 per cent, with rates up 4 per cent to almost Fl203 ($123).

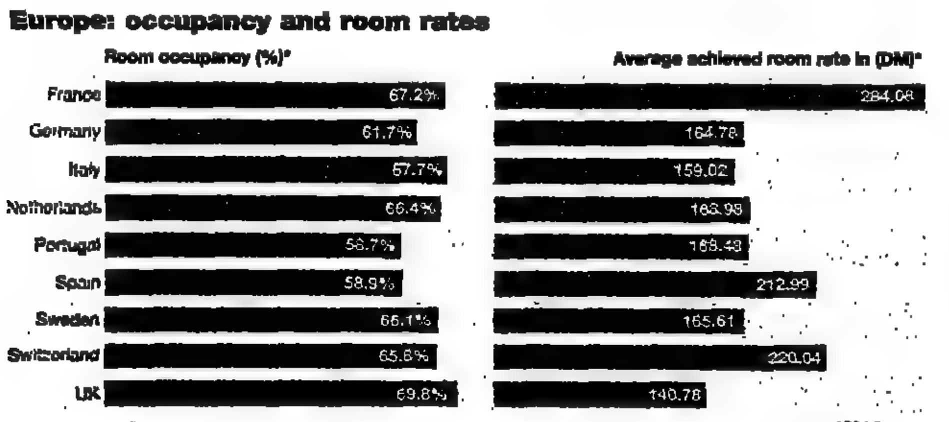
Things look bleaker elsewhere. Paris, affected by both the strong franc and boycotts by tourists objecting to its controversial decision to restart nuclear testing in the South Pacific, suffered especially. Occupancy was at 63.5 per cent, down from 67.6 per cent in 1994, and average daily rates edged up by just 1.3 per cent to FFr1,193 ($238).

The difficulties of the slowdown in Germany have helped contribute to a 0.3 point decline in occupancy in Frankfurt to 69.4 per cent. In Lisbon occupancy fell 4.7 points to 56.3 per cent – tourists have preferred Portugal's beaches to its capital city.

Meanwhile analysts warn that interest in budget hotels is continuing to grow, a factor which means good business for developers at the bottom end of the market, but bad news for prospects of any short-term rise in room rates over the coming months.

Riding high: Lyon's occupancy rate is higher than Paris's Ray Roberts

Europe: occupancy and room rates



Source: Pannell Kerr Forster Associates *1994 figures

■ **Asia:** by Bethan Hutton

Demand outruns supply

Construction of new hotels cannot keep up with the demand for rooms in some countries

When the Hong Kong Hilton was demolished last year to make way for an office development, it sent shock waves through the colony's hotel industry. Hong Kong had always set the standard for hotels in the Asia-Pacific region: could this be a glimpse of a wider future trend?

So far, the answer seems to be No. Hong Kong may have lost its Hilton, but there are several other four and five-star hotels under construction. The Hilton group says that re-establishing its presence in Hong Kong is a priority. And throughout the region hotel rooms are proliferating at a breathtaking rate – though in some cases, not fast enough to cope with demand.

All the big international chains are expanding in Asia. Japan is the most sluggish market, and might be thought to have reached saturation point, but the Méridien group is opening a second hotel in Tokyo this year. Indonesia, Malaysia and Thailand are the sites of the most intensive development, both for inner-city business hotels and beach and island resorts.

India suffers from a severe shortage of top-class international hotels, particularly in New Delhi, where occupancy rates can exceed 100 per cent, but relief may be some time coming. Many of the large international chains – including Hilton, Holiday Inn, and Marriott – have development ambitions for India, and the main local operators Taj, Oberoi and ITC are also expanding. But bureaucracy and a shortage of land in suitable locations are proving to be tough obstacles.

One new five-star hotel in New Delhi has been sitting completed but unoccupied for more than a year, while its owners grapple with the local bureaucracy. Several international groups have found that an easier way into the Indian market is to link up with a local partner and redevelop existing hotels, sometimes under a co-branding arrangement.

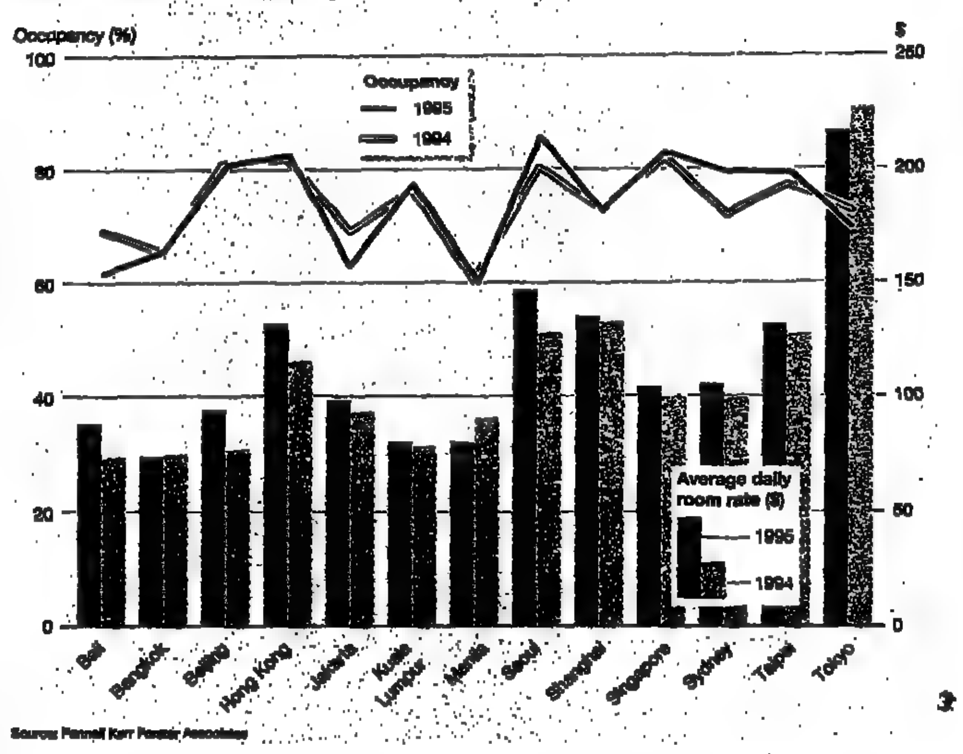
Rapid economic progress in the Asia-Pacific region has spawned newly-affluent middle classes, who are developing a taste for tourism in their own back yard. Average incomes are not yet high enough for them all to patronise Hiltons and Marriotts, but they are demanding higher standards and a more international focus than old-style local hotels can offer.

There is therefore an expanding market demand for internationally-oriented hotel chains offering reliable service at a two or three-star level.

Australia-based Accor Asia-Pacific, an offshoot of the French group best known for its Novotel and Sofitel brand names, is one group catering to this trend. The mid-range Novotel brand is its main focus, with 27 Novotels scheduled to open in 1996-98. Accor is also planning more developments within its more basic Ibis brand: nine Ibis hotels are due to open in Indonesia within the next two years, six in Thailand, and others in Malaysia and Vietnam.

Another emerging trend at the other end of the price scale is the construction of smaller, European-style luxury boutique hotels, aimed at international travellers tired of the impersonality of the 500-room mega-hotels, but still demanding high standards of service and amenities.

Asia-Pacific: occupancy and room rates



Source: Pannell Kerr Forster Associates

Rising skyline: Hong Kong, seen here from the Grand Hyatt, is the site of several hotel construction projects

■ **Latin America:** by David Pilling

Region shines again

The 1994 financial crisis caused only a temporary halt in construction of new hotels by developers

The Mexican devaluation of December 1994 has taken some of the shine off Latin America's economic transformation, but the region is still regarded as one of the most promising by the world's hoteliers.

"Most people see Latin America in general and certain markets in particular – such as Argentina, Brazil and Chile – as very exciting points of opportunity," says Mr Roger Titley, head of a Miami-based hospitality consultancy.

In the years before the 1994 devaluation, new hotels had begun to sprout up all over Latin America as developers sought to exploit the opportunities being created by the reform process. Continent-wide liberalisations and fast rates of real economic growth were attracting a flood of business travellers to the region.

Hotel chains which had previously associated Latin America with instability and protected markets were tempted to the region. In Buenos Aires, for example, quality new hotels such as the Hyatt, Cesar Park and Intercontinental were built, competing at the top end of a market previously dominated by Sheraton.

Mexico's confidence-sapping devaluation stopped some hotel construction projects dead in their tracks, including two planned Sheraton hotels in Guadalajara and Monterrey. But in many other countries, with the notable exception of crisis-torn Venezuela, investment has carried on apace. Even markets that were previously of little interest to hoteliers, such as Cuba and Peru, have found favour.

Latin America's biggest economy, Brazil, which is tentatively emerging from years of chronic mismanagement and hyperinflation, is perhaps the greatest prize of all, both on the business and leisure fronts. Delegates to big conferences in Rio de Janeiro, for example, are often unable to book rooms in five-star hotels because they are fully reserved.

According to Mr Titley, Hilton, Intercontinental, Hyatt and Marriott International are all actively evaluating investments in Central and South America. Marriott is "already in strong expansion mode", with projects in countries as diverse as Ecuador and Argentina, he says.

The entry of new hotels into the market is improving quality, says Ms Patricia Acuña, a Buenos Aires-based businesswoman. Accommodation has generally lagged some way behind the standards of Europe and the US, although prices have if anything been higher. Some hotels are beginning to offer guests American-style services like free cellular phone use, or private fax machines, she says.

In Buenos Aires, new hotel construction has prompted ITT Sheraton to invest $52m in upgrading its hotel there, adding a tower with 188 super-luxury guest rooms. In Santiago, Chile, the group is investing $38m in an attempt to spruce up its rather dowdy hotel in the city and compete for attention with the popular Hyatt Regency.

If competition is hotting up at the top end of the market, it is also beginning to stir in more moderately priced accommodation. Apart-hotels, which offer the guests a basic kind of suite and cost around $100 a night, are becoming much more popular, especially among longer-stay visitors. Here rooms are generally of a high quality, but dining-room and other facilities are much more limited.

Mr Titley says the next few years will see "a tremendous boom" in the mid-market segment, with the moderately priced Holiday Express (Holiday Inn), Four Points (ITT Sheraton) and Courtyard (Marriott) chains all involved.

He predicts that some 150 such hotels could be built over the next decade, not just in Latin American capitals, but in the more important state and provincial cities too. Visitors to the region will be hoping the arrival of these chains will shake up the market still further, cutting room rates and improving service.

Any rooms at the inn? Rio's hotels are sometimes fully booked Glyn Genin

■ **Growth:** by Scheherazade Daneshkhu

Ownership loses its appeal

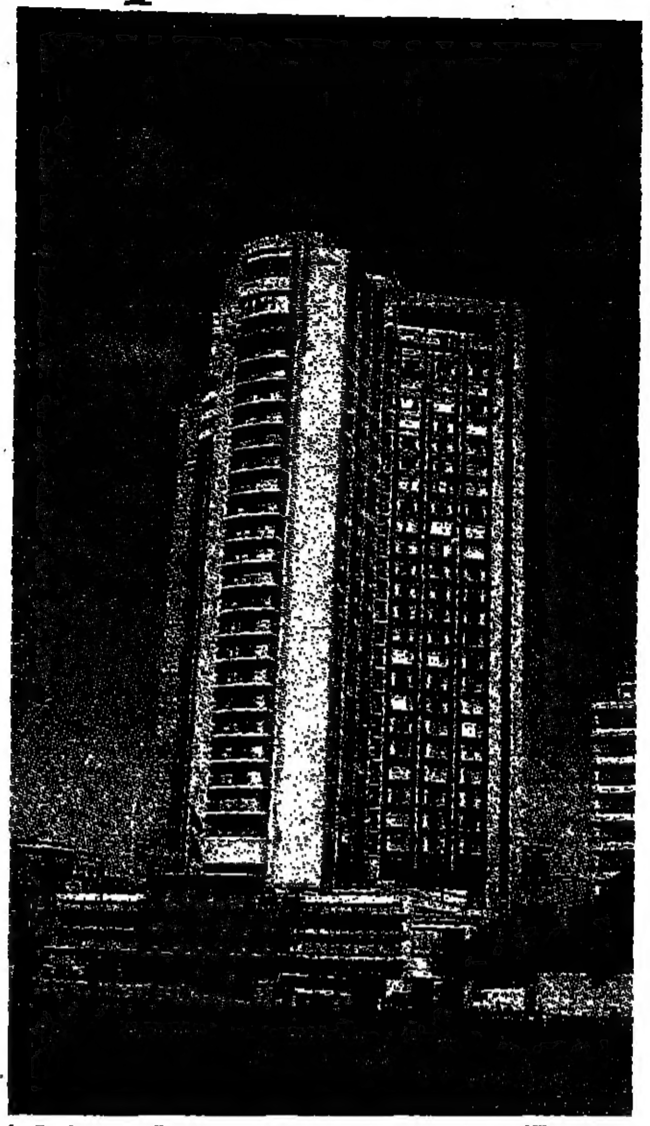
Weak property prices mean that operators prefer franchises to new hotels

Growth is the watchword of the hotel industry. Most of the larger hotel chains are pursuing a policy of rapid expansion, keen to take advantage of expanding worldwide tourism and the recovery of business travel.

Some, however, have felt growth contraints. Property once used to be a hotel company's greatest asset and the principal motivation for investment. But a fall in the US and European property market at the end of the 1980s put financial burdens on hotel companies and restrictions on the management side of their operations.

When Marriott Corporation decided to split into two companies and to put its real estate and debt into one company (Host Marriott) and its hotel management into another company (Marriott International), it turned the spotlight on the value that can be gained by separating hotel management and property management skills.

Since the split in 1993 both companies – Host Marriott in particular – have outperformed the market. The experiment has fitted in perfectly with the current fashion for demerger whereby investors tend to value the parts of a company at more than the whole, partly because sharper focus is believed to enhance performance.


Ladbroke has split property management from operations at Hilton hotels

The split also gave Marriott Corporation more leverage in raising development money from shareholders, according to Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, the accountancy firm. "Management, not ownership, is the cry – no one wants to own hotels, just to manage and franchise them and the ability to commit capital quickly is key to obtaining management contracts."

Other companies have also been ridding themselves of the property burden, not necessarily through demerger but by selling their property or taking a strategic decision not to buy any more property, relying on growth through management contracts or franchises instead.

Ladbroke, the hotels and betting company which owns Hilton International, last year split the property management of its hotels from the operational management to increase returns. "We are good at operating hotels but not good at managing the assets," said Mr Peter George, chief executive of Ladbroke, at the time.

Four Seasons, the luxury Toronto-based hotels group has also been pursuing property disposals. "From a purely financial perspective, there has also been a definitive move towards the separation of the management and ownership of hotel assets with the goal of increasing shareholder value and reducing the volatility of hotel companies' income stream," says Mr John Richards, executive vice president of Four Seasons. "For several years now we have been engaged in an ongoing programme of asset sales geared towards reducing debt and, in conjunction with the globalisation of our portfolio of management contracts, at creating stable income stream."

Mr Paul Slattery leisure analyst at Kleinwort Benson, investment bank says: "It's entirely understandable why the chains are looking for management contracts or franchises – they don't want to put their own capital in." Nor do they need to, says Mr Slattery. In most countries structured institutional sources of capital for hotel development do not exist in the same way as in the US or UK. Instead hotel investors are wealthy individuals or governments who wish to retain ownership but are not necessarily able to run a hotel.

Unlike a decade ago when there were fewer participants in the hotel management business, hotel owners today have a wider choice of groups from which to select. This competition is reflected in the contracts available. Instead of being granted 3 per cent of turnover and 10 per cent of gross operating profits, hotel management companies are having to settle for 2 per cent of turnover and 8 per cent of gross operating profit. In addition many are having to throw in something else, such as a small equity stake, or a commitment to finance the first refurbishment of the hotel.

Franchising has also become popular even with companies that had previously fought shy because of concerns about quality control. Several large companies, such as Choice Hotels International and Holiday Inn, have expanded rapidly through franchising.

Holiday Inn, which franchises or operates more than 2,000 hotels, aims to increase that number to 3,000 hotels by the end of 1996. In the past two years it has been developing hotels at what it calls "record-breaking pace" by opening a new hotel every other day.

Inter-Continental, while chary about franchising its core brand, does franchise some of its three and four-star Forum hotels. Hilton International said for the first time last year that it wanted to franchise a new three-star Hilton brand. While the current trend toward franchising and management contracts can be expected to continue, it is also too soon to write off the asset-based hotel company which may, in due course, become fashionable again.

■ **Trophy Hotels:** by Scheherazade Daneshkhu

Glamour must pay its way

Purchasers of glamorous, historic hotels now expect them to yield a healthy financial return as well as social cachet

For some, owning a prize hotel, such as the Ritz in London or the Plaza in New York, is a cherished dream. The glamour and prestige of possessing historic properties which have been home, if only for a short time, to the famous can be alluring. But although dreams come cheap, prize hotels do not. And the trophy hotels, like Impressionist paintings, can be as susceptible to fashion and almost as difficult to price.

When the Sazale group, a Tokyo hotel company, bought the Bel-Air hotel in Beverly Hills, which has played host to movie stars such as Marilyn Monroe and Grace Kelly, it paid a record price in 1989 of $110m, or crudely, $1.2m for each of the hotel's 92 rooms. The sale came just a few years after Yasuda Fire and Marine, a Japanese insurance company, paid £24.75m for Van Gogh's Sunflowers – then a record price for any work of art at auction.

But when the feel-good factor of the 1980s, fuelled by rising share and property values, fizzled out in the early 1990s, the price of seemingly useless desirables such as paintings and luxury hotels fell.

Sazale surrendered the property in 1994 to the Long-Term Credit Bank of Japan, its creditor, which sold it last year to the Brunei royal family for about $80m. To many the lesson is that trophy hotels are not for the true businessman and only for satisfying the whims of wealthy or flamboyant investors, such as Donald Trump, the Sultan of Brunei or Prince al Waleed bin Talal bin Abdulaziz al Saud, the Saudi investor.

Ms Kay Dymock disagrees. The lead partner of JLW Hotels, the specialist hotels division of Jones Lang Wootton, the property consultant, regards the term "trophy" hotel as verging on the derogatory. "For most of the 1980s there was a belief in a sector called trophy hotels where returns were minimal. I'm not sure the concept still exists in the 1990s," she says.

What's in a name? - a lot, when it comes to trophy hotels Trevor Humphrey

Many trophy hotel purchases were made by Japanese investors who were prepared to take low returns over a long period, she adds, but "in our experience investors today expect returns in excess of 7 per cent per annum".

It is not only individuals who buy trophy hotels, although many that do regard them as property plays, according to Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, accountant. He points out that for some of the international chains a trophy hotel can enhance the value of a brand name and thus of a whole portfolio of hotels.

Inter-Continental staged something of a coup when it acquired the celebrated Carlton Hotel in Cannes, in the south of France, while ITT Sheraton bought a controlling stake in Ciga, the loss-making Italian hotel group in 1994 for £365m. Most of Ciga's hotels, which include the prized Gritti Palace and Daniell in Venice, take pride of place in ITT Sheraton's Luxury Collection brand, the upmarket portfolio it formed last year.

ITT Sheraton, which is a publicly quoted company, is keen to show that it can make money from a collection of hotels which last reported a profit in 1985 and for which sceptics believe it paid too high a price. After reporting a sharp reduction in losses for the first half of 1995, Ciga is expected to make net profits this year.

With the gradual ebbing of the recession, demand for hotels at the luxury end of the market has revived, particularly in London and New York. Last year the Plaza Hotel, which overlooks Central Park in New York, was sold for more than $300m to CDL Hotels, the Singapore-based group, and Prince al Waleed.

Determining the worth of a trophy hotel is a challenge. Ms Dymock believes the method of valuation should be no different from that of other hotels. "The usual method is to look at the net cash flow and forecast what it will produce. The hotel is valued on its existing and projected income."

When the Ritz changed hands for £75m last year from the troubled Trafalgar House conglomerate to David and Frederick Barclay, the property investors, some observers thought the price too high at £575,000 a room. However, as one analyst pointed out: "What people forget is that the Ritz has shops, and more importantly, a casino paying just about the highest rent per square foot in London and producing an annual income of about £1.5m."


Fame game: hotels where stars like Monroe have stayed are prized PA

Women executives on the move: by Kate Bevan

Security is the key issue

Female business travellers have special needs, but complain that they often get poorer service than men

Most business travellers would walk out of a hotel where they were given a room next to the lift, where waiting staff seated them behind plants in restaurants and then ignored them, and where they were leered at by receptionists.

Most male business travellers, that is. Women executives have reluctantly become used to being treated as second-class citizens by some hotels.

Yet with the number of women travelling alone rising, hotels are at last waking up to the fact that the female traveller not only has to be treated with the same respect as the male traveller, but has additional needs too.

Some are obvious. Ms Rosanna Greenstreet, a journalist and author, says: "Security is very important." In a survey of regular women travellers carried out by Chambers Travel, which specialises in business travel management, 95 per cent of respondents stressed its significance. One element of this is confidential allocation of room numbers: "I don't want the entire lobby to know which room I'm in," remarked one respondent. Ms Elisabeth Ohlsén, a private banking account manager for Svenska Handelsbanken, concurs. "I wonder who else has heard this when I check in," she says.

American Express, which produces a guide for women travellers, supports this. Its booklet *Smart Travel* suggests that a lone woman traveller should "treat your room number like a state secret, and expect staff to do the same. If they don't, complain." It adds that it is a good idea to avoid displaying a room key with its number in public areas.

Ms Greenstreet comments: "Once I'm in my room I like to be able to lock it from the inside." American Express suggests: "Insist on a room with a security chain, deadlock and spy-hole."

Good lighting makes a hotel feel safe, says Ms Ohlsén: "When you go up a corridor it should be light and bright – some hotels have hidden corners."

Chambers Travel found that 74 per cent of respondents would like security personnel to be visibly present at hotel entrances. An idea popular among hotels – women-only floors – is less favoured by women. Just 32 per cent of those responding to the Chambers survey thought it desirable. Many pointed out women-only floors could create extra risks, by giving criminals a clear target.

Things that men do not even consider can make a single woman traveller feel uneasy. For example, holding a meeting can be uncomfortable in a room dominated by a bed. If a meeting room is not available, it is a good idea to take a suite. A lay-out such as one used by the Four Seasons in Toronto, which has a separate bathroom in the sitting area, saves clients having to troop through the woman's bedroom and use a bathroom full of her cosmetics and toiletries.

Alternatively staying on a executive floor is a good idea if a woman traveller is planning to entertain clients. These are often a hotel-within-a-hotel, offering a separate concierge, restricted access and private lounges ideal for meeting outsiders.

It is often the small things about a room that score highly for women travellers. Ms Greenstreet says: "I like good lighting in bathrooms, and on mirrors – I don't like those mirrors with coloured glass and bad lighting so you can't see to make up your face. And I like to have a telephone in the bathroom." Trouser presses lurk in corners of just about every hotel room, but ironing boards are less common. "Being able to press my clothes is important," adds Ms Greenstreet, "either with an ironing board or a very fast pressing service in the hotel – say an hour turnaround."

With executives preferring to travel as light as possible, a hotel should be able to provide some basics for women. "Hairdryers," says Ms Rebecca Werner of New York's Four Seasons hotel firmly. "I must have a hair-dryer in my room." Ms Greenstreet adds: "I like to have all the bits – cotton wool and cotton buds, shampoo and suchlike." And with more travellers taking children on trips, being able to get the essentials without having to lug them from home makes a difference. Ms Cherry Kam of the Toronto Four Seasons is the mother of a toddler, and says: "I expect to be able to get diapers in a hotel."

Many women travelling alone would rather not go out by themselves, and so look for good eating facilities within their hotels. This not only means good food, but a good attitude from staff, whether they are delivering room service or seating a lone woman traveller in a restaurant. American Express suggests that women travellers should be more demanding: "Don't wait to be seated behind the potted plants or marooned uncomfortably in the middle of the restaurant. Say where you'd like to sit."

Chambers Travel found that 84 per cent of women responding to its survey take room service – and 47 per cent said they do so because they need to work in the evenings. "I don't want to go out by myself," says Ms Ohlsén, "but room service must be OK, and the bar and restaurant are very important. I want to be comfortable."

Feeling at ease alone in a hotel's public areas is a problem for many. Chambers found that 49 per cent were uncomfortable, saying they thought their single presence could be misinterpreted by male guests. American Express advises: "Order a drink in the lounge rather than the bar. Let staff know if you'd like to be left undisturbed, and expect to be consulted first if someone wishes to buy you a drink."

The attitude of hotel staff to lone women is important. "Male staff can be so patronising," said one respondent to the Chambers survey. Another firmly made the point: "Staff should assume all single women are VIPs. Mistakes will not then occur." Ms Ohlsén says: "I'm going there with business on my mind. I want to be treated properly."

Upwardly mobile: the number of women business travellers is growing

Business travellers: by Kate Bevan

Massaging the executive ego

Hotels offer guests a wide variety of practical and luxury services for work and for pleasure

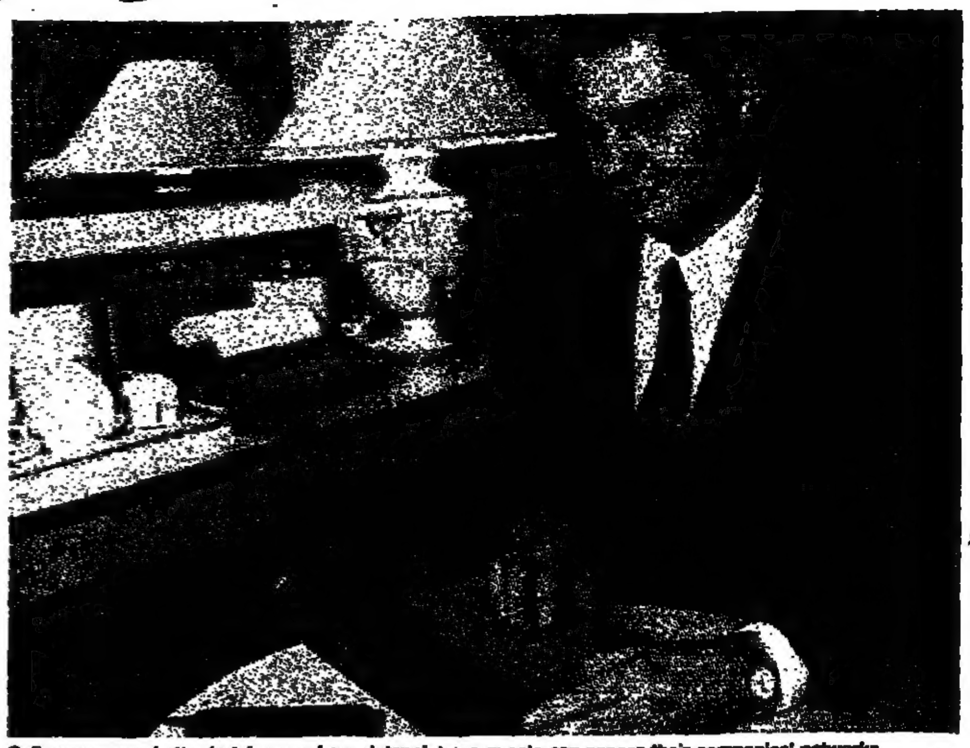
When you are away from home on business, all you need is a bed, a bathroom and a telephone – right?

Travellers may think so, but the hotel industry knows better. The executive staying at a five-star hotel almost anywhere in the world can choose from a variety of services, from massages in New York to business centres which provide Reuters screens and laptops in Hong Kong.

According to the Four Seasons in London, what the business traveller wants above all from a hotel is flexibility. "Each business traveller has their own very specific demands and it is for the hotel to provide the appropriate solution as creatively and quickly as possible," says a hotel spokesperson.

Business travellers' demands begin before they even reach the hotel. Executives want to know that any messages or faxes that arrive before they do will be held for arrival. One frequent traveller adds: "I like to be met at the airport by a hotel representative, especially if it's a city I haven't been to before."

Once they have checked in travellers can use the now-ubiquitous business facilities: most hotels at the very least offer a business centre where secretarial support is available and faxes can be sent and received. Many hotels go further – for example, the Peninsula in Hong Kong places a fax in each room and tells the traveller the fax number in advance of their arrival. The Conrad in Hong Kong, like other hotels in the colony, will lend guests a mobile phone.



Online overseas: better hotel rooms have datapoints so guests can access their companies' networks

And no traveller should have to cannibalise leads and jacks to get their laptop to work in their rooms – datapoints are common in better hotels.

In an unfamiliar city it is easy to feel trapped in your hotel. To ease the strain of finding your way round, many hotels will provide a complimentary limousine to ferry you around the main business district. For example, the Four Seasons in Toronto is outside the downtown area and offers a free limousine to the main commercial area of the city. But there are other small things a hotel can do to make orientation easier. Ms Rosanna Greenstreet, a journalist and author, cites a nice touch at the Oriental in Bangkok: "There was a map in my desk drawer in the room which had all the main destinations marked clearly in Thai script so it was easy to show taxi drivers where I wanted to go." In the absence of such a map the hotel concierge should be able to write a destination in local characters.

"Many travellers don't make the most of the concierge," remarks one travel industry executive. "They're more than just someone to get a map from." The Four Seasons in London agrees. "Our guests increasingly delegate the organisation of their travel arrangements to the concierge," says Mr Gary Parker, concierge manager. "With business schedules and travel details increasingly subject to last-minute change, we are regularly changing airline tickets, organising hotel bookings, car hire and business appointments in other parts of the world," he adds.

But when the laptop has been turned off and the business suit is hanging neatly in the wardrobe, hotels leap to provide facilities to help guests relax. Most tastes are catered for, from jacuzzis to float tanks and the latest high-technology exercise rooms.

Some go even further: the Four Seasons in New York has a variety of massages, from the jetlag massage to the business presenter's massage. Leaving your sports kit at home is no excuse not to use the sports facilities: most hotels will lend you the appropriate clothes.

For all modern hotels' high-technology business kit and steam rooms, "the traveller above all wants to be comfortable," says Mr Didier Le Calvez, general manager of the Pierre in New York. "It's an atmosphere that the hotel has to provide."

Favourite hotels: by Kate Bevan

Oases in a desert of work

Four frequent travellers nominate their preferred bolt-holes when business takes them abroad

Mike Pearson, technologist

Regular travellers are pretty definite about what turns an ordinary hotel into a favourite hotel. It can be as simple as where it is. For that reason, Mr Michael Pearson, a technologist with Kelco, which makes stabilising and gelling agents for food and industrial products, says: "I like the Hyatt Regency in Seoul, it's in a great location."

Mr Pearson, who makes about 10 trips a year, mostly to Asia, adds: "It's fairly mountainous country and the hotel is perched on a hill out of town, looking down on to it. Although it's very close to the city it is just outside it. It's also very close to the 'foreigners' street', which has lots of markets and stalls – it's great for shopping."

But location is not the only reason Mr Pearson picks the Hyatt Regency as his favourite hotel. He adds: "The sports facilities are good, and there's also a nice bar which has live bands. It's a very complete hotel – it has good restaurants. It offers Korean, Chinese, Japanese and western food."

Amanda Conroy, communications executive

Ms Conroy, Polygram's head of corporate communications, rates the peace and quiet of Morgans in New York above state-of-the-art telecommunications.

"What do you need? You need a phone, a fax, but I've got all the facilities I need at the office in New York. That's not the most important thing for me." She makes trips every year to the US and to European destinations.

She says of Morgans: "I feel completely at home there – it's just like being in your own apartment – it's a little oasis away from the hustle and bustle of New York."

"Morgans has a small, unassuming lobby," adds Ms Conroy. "I feel very safe staying there" – something particularly important in a big, impersonal city like New York.

For Ms Conroy, facilities for entertaining clients are less important than for some other business travellers – she does her socialising away from the hotel. "That's the way I want it – I need to have somewhere to go back to and Morgans is like a secret place to stay."

Louise Fowler, airline executive

Estate agents say there are three things that matter about a property: location, location and location. It's the same for hotels. Ms Louise Fowler of British Airways picks Hong Kong's Mandarin Oriental for that reason: "It's on the Hong Kong side but near enough to the Star Ferry so I can get to Kowloon easily, and get around to all the places I need to visit for work. It's also near restaurants so I feel comfortable going out at night."

Little touches such as a speedy response from housekeeping can turn an ordinary hotel into a favourite hotel. Ms Fowler, who makes between six and 12 trips a year, relishes the service at the Mandarin Oriental. "It is discreet and attentive without being overpowering – it's not obsequious." Her other favourite hotel is the Taj Mahal in Delhi, which she says has a rather different approach: "It's more overt than the Mandarin Oriental – there's always someone bringing things like fruit to the room, and constantly checking to see if things are OK. It's a treat, specially in Delhi, which can be overpowering."

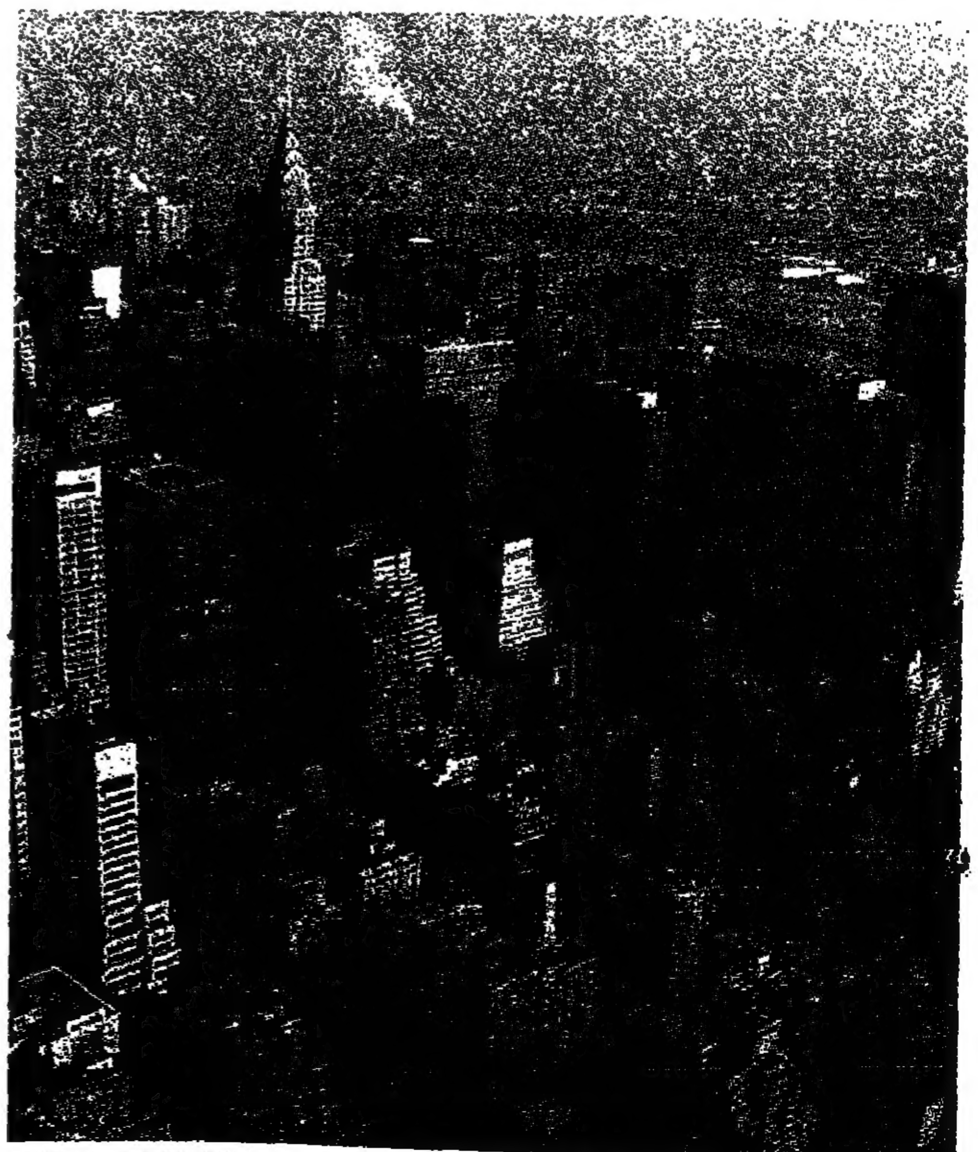
Doug McNeish, antiques dealer

Hotels have to work hard to stand out from the crowd. After all, most five-star hotels have marble bathrooms and a telephone by the toilet. Mr Douglas McNeish, who travelled abroad about twice a month when he worked as a merchant banker, cites the pool at the Bristol in Paris as one reason for the hotel's status as his favourite. "It's an indoor pool," he says, "but they have sliding doors so that on nice days it's open to the elements."

Mr McNeish points out that a hotel needs to add value: "All you need is a phone and the ability to get messages," he says. Much higher up his list of priorities is the atmosphere and the service. He says: "The Bristol has a very personal touch. They keep records of when you stayed, what room you were in, and your preferences. The staff are very polite and attentive. Even though I speak French, as far as I could tell they were all bilingual."

The Bristol's public rooms catch his eye, although as an antique collector he focuses on a particular aspect: "They have some good antiques around," he says, and adds: "I've entertained clients there, and the public rooms are very nice – some bigger hotels are rather flashy and glitzy. At the Bristol they're understated and elegant."

He adds: "I once laid on a meal for 50 or 60 clients at the Bristol at pretty short notice – I only gave them a few days – and it was very good value for money. They only charged for the catering, not for the use of the room."



The Big Hassle: hotels that give guests a respite from New York's hurly-burly win their loyalty

Lyde van der Meer

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Great expectations: members of loyalty programmes run by airlines and hotels expect to receive a range of perks as a matter of course

■ **Loyalty programmes:** by Roger Bray

Know your customer base

Databases detailing customers' foibles are helping hotel companies to retain their favour

One marketing anecdote tells of a group of executives trying to brainstorm ways of improving their airline's business class. They were so desperate to inch ahead of their rivals that they fell to discussing the number of bristles on the free inflight toothbrush.

Hotel marketing teams suffer much the same problem when it comes to customer loyalty schemes. Most major groups and even individual hotels now offer incentives to keep guests coming back. But how can you make sure your scheme outshines the competition?

Loyalty programmes tend to cancel each other out. Regulars now expect perks such as free upgrades to superior rooms and express check-in as a matter of course. Improving programmes becomes increasingly costly. They may be expensive for corporate customers too. Research suggests some executives spend more on travel than they need to so they can earn extra points.

A more efficient way to win executives' hearts may be to identify which of them spend the most and pander to their individual tastes.

The cost-efficiency of loyalty programmes cannot be calculated without subtracting parallel savings on advertising. Hotel groups are already milking the huge databases built on the back of loyalty schemes, luring business clients to their resort properties through direct mail, for example.

The list of advantages to repeat customers is already bewildering. Take Hyatt's Gold Passport Club, for example. Instant benefits include rooms in separate and exclusive parts of hotels, complimentary free morning coffee or tea, video check-out and a bill slipped under your door on the day of departure. Collected points earn room upgrades and free holidays.

Most hotel groups have tie-ups with airlines. These allow passengers to offset air travel points against hotel nights – and vice versa. The potential of such links is well illustrated by Inter-Continental, which claims that its Six Continents Club, which has been running for 30 years, is the oldest of all loyalty schemes. In 1994, with recession still depressing demand, it decided to offer rooms in midsummer at around half the normal rate.

"We found that 60 per cent of Americans staying at those prices in our European hotels had flown there using free tickets obtained through frequent flyer programmes," says Mr Michael Stajdel, senior vice president for marketing and strategic planning.

But if a wide selection of companies such as Radisson, Inter-Continental and ITT Sheraton, all have links with the same airlines, the marketing advantage can be diluted. That is why some hotel groups have been offering double or even treble points to repeat customers.

A Hyatt spokeswoman says: "This creates an upward spiral which becomes more and more expensive."

Many companies, like the huge Best Western marketing consortium, which has a deal with Avis, have struck points deals with car rental companies.

A few have yet to accept the seemingly inevitable. Aside from an airline points deal with its owner Swissair, the international Swissotel chain has no specific loyalty scheme. UK and Ireland sales director Ms Rose Saliba says: "What the corporate customer wants first and foremost is efficiency. It is pointless creating gimmicks for their own sake. These schemes can be immensely costly to launch and maintain."

She concedes that the company, which has properties in eight countries besides Switzerland, has been investigating how to jump on the bandwagon.

Mr Michael O'Donnell, Westin's sales director for the UK, Italy and Spain, comments: "Repeat business is paramount. People are trying to be more creative, making sure loyalty scheme membership cards don't just sit in the wallet.

"The long term way of ensuring guests come back is to know every single aspect of their likes and needs," he continues, "If you service all the guest's needs you will probably have the best loyalty scheme. For example, there's no point putting a complimentary bottle of champagne in the room if the guest is teetotal."

The Hyatt representative believes hoteliers are still too blinkered towards the potential of their databases. She thinks they need to widen their knowledge of corporate guests, recording where they travel most frequently, what they spend their money on in the hotel and whether they are likely to use the group's leisure resorts.

■ **US budget hotels:** by Lisa Bransten

Low rates create high profits

No-frills lodgings can boost operators' returns, as well as saving guests' money. The formula has sparked a building boom

A building boom is under way in the US lodging industry. But only a small part of that growth is in the traditional full-service hotel sector. Instead, most of the expansion is coming from the construction of no-frills budget hotels.

Of the 82,000 hotel rooms Coopers and Lybrand estimates were built last year, nearly 60 per cent were in the economy or mid-priced categories that include chains like Hampton Inn and Courtyard by Marriott. Earlier this year Hilton Hotels weighed in with plans to build 100 Hilton Garden Inns over the next four years. Marriott is expected to develop a new chain in the category that will be slightly less expensive than Courtyard hotels.

Budget hotels are aimed at cost-conscious business travellers and generally boast rooms similar to full-service hotels, but at much lower prices. According to Smith Travel Research the average mid-priced room in the US costs around $63 a night compared with $123 a night for a luxury hotel.

The rooms are meant more for business than pleasure. They are often well lit, have big desks and boast modern communications equipment such as fax machines and computer ports.

Hospitality Franchise Systems, the largest hotel franchiser in the US is building a new brand, Wingate Inn, where rooms will cost $60 to $70 a night and will include larger desks, lounge chairs and two phones, one of them cordless.

What is missing from most budget hotels are fancy accoutrements such as bars, health clubs and conference rooms. Some, but not all, have cheap restaurants.

One new chain, MainStay Suites, will even eliminate the front desk. Guests will check in and out electronically in this limited-service chain being developed by Choice Hotels International, another large hotel franchiser. MainStay hotels will be designed for longer stays, and the rooms will include kitchenettes.

While demand for budget hotel rooms has grown at 4 per cent a year since 1990, demand in the limited-service segment has risen at an average of 5.25 per cent a year, with 6.7 per cent growth in 1994, according to Smith Travel Research.

The trend away from full-service hotels has been driven by two converging trends. The first is corporate restructuring and cost-cutting, which has sparked demand for lower-cost business lodgings.

The other is the realisation in the hotel industry that no-frills hotels can be much more profitable than their full-service counterparts. The average Hampton Inn, for example, costs about $37,000 per room to build and each room brings in $59 per night. A luxury hotel, on the other hand costs nearly seven times that per room to build, while the rooms bring in only about $150 per night.

Mr Bjorn Hanson, head of the hospitality group at Coopers and Lybrand, the US consulting and accounting group, says that the food and beverage operations in luxury hotels often operate at losses that have to be subsidised by room rentals.

Smith Travel Research reports that the gross operating profit in the limited-service sector in 1994 was 45 per cent, against 31 per cent for full-service hotels.

During the late 1980s and early 1990s when the hotel industry as whole experienced record losses, operators of budget hotels were able to maintain relatively stable operating profits. Full-service hotels, on the other hand saw their margins squeezed as low as 20 per cent as they offered more and more services to attract a shrinking number of guests.

These phenomena fuelled the desire of the big hotel chains to get into a category where consumers were willing to settle for limited service in exchange for a cheaper rate.

Most new budget hotels have been built in areas that have two or three older full-service hotels, enabling the operators to offer travellers newer rooms in hotels that are just as well located, and make more money in the process.

There is a fear that room rate increases may not keep up with inflation if the building boom in this category causes supply to outstrip demand, but the margins at many chains are considered strong enough to withstand some pressure.

Mr Chuck Ross, a vice-president of Smith Travel Research, says that if all the mid-priced hotel construction that has been announced is completed, then the sector could have problems. Even at the height of the hotel building boom in the 1980s there was never the same the concentration on one category as there is now in budget hotels, he says.

Accommodation with all the trimmings: services like luxury restaurants create a big cost burden

Airport Hotels: by Kate Bevan

Ugly, crowded and popular

Their convenient locations are the main reason why these hotels are enjoying a boom in business

There seem to be almost as many hotels at aiports these days as there are airlines. Useful as stopovers, meeting points, or somewhere to billet airline crews, airport hotels are big business – so much so that Hogg Robinson, the UK business travel agent, counts London Heathrow as a separate city, ranked fourth in the UK by costs in its annual business travel survey of hotels.

But why choose such a venue? Airport hotels are often ugly concrete blocks, with thick double-glazing to dull the sound of roaring aircraft and views of nothing more exciting than the back end of a runway.

Mr Mike Gates, director of central services at Hogg Robinson, points out some of the benefits. "They provide a 24-hour operation," he says, and adds that they are good venues for meetings. "Lots of people fly into Heathrow, have a meeting, and then fly back out again the same day. They never go into central London at all," he remarks.

Airlines are among the biggest customers of airport hotels. Mr Alan Jones head of airline sales for Forte Crest, says that every night about 400 crew members stay at the Excelsior hotel at Heathrow alone, helping push occupancy rates up to an average of more than 90 per cent. "And they're there every day, including bank holidays and weekends," he adds. "During the week we can have up to 100 per cent occupancy."

Airlines also use airport hotels as part of their services. Virgin Atlantic, Mr Richard Branson's carrier, has an arrivals facility at the Holiday Inn Crowne Plaza at Heathrow. It ferries Upper Class passengers from the terminal to the hotel for a swim, massage and shower at the hotel's health club.

United, the US airline, has dayrooms at the Heathrow Forte Crest where arriving premium-class passengers can shower and change. United offers its passengers a special parking rate of £5 a day at the hotel and maintains a check-in desk there, available to passengers travelling in all classes. The American carrier also has similar facilities at airport hotels in Paris, Milan, Amsterdam, Brussels and Zurich.

Although there are bad points to airline business – "Crews don't spend any money in the restaurant," remarks one executive – the plus is that they are the first places the carriers turn to in an emergency. "We get the spin-off business if there's a delay," says Mr Jones.

This means that a 747-load of disgruntled passengers corralled into a hotel to await a delayed flight are a captive market. Although passengers will be given vouchers for a certain amount of refreshment, inevitably they end up spending more in the bars and restaurants.

And if a flight delay means putting up the passengers overnight, the first port of call for the airline is the hotel where they billet their crews, although at this point, hotels will co-operate to find beds if the first hotel's capacity is not sufficient.

From the leisure travel industry's point of view, airport hotels are a good thing. "The growth is tremendous," says Mr Nick Cust, joint managing director of Superbreak. "It extends a holiday to have a night either side of a flight at an airport hotel." And there is another benefit for leisure travellers who do not have an employer picking up the airport parking costs. Superbreak offers a rate of £42 per person per night at the Marriot Heathrow – which includes 15 days' free parking.

Decent transport links are a bonus. Most hotels run regular courtesy buses to airport terminals and in many cities rail or road links are good.

It is not only travellers who use airport hotels – many local businesses use them as venues for meetings and conferences. The Forte Crest at Heathrow has a dedicated facility of fully-equipped meetings suites – the Academy – catering for that market.

But in spite of the benefits, airport hotels have drawbacks. Mr Gates of Hogg Robinson highlights the impersonal ambience of hotels which have to cater for so many different markets. These "bed factories", as he puts it, are dealing with leisure and business travellers, people attending meetings and conferences, arriving passengers using airline facilities, and mobs of aircrew.

As airport hotels also pick up local business, they are under pressure to deliver the goods for several different markets. The danger is that the hotels become impersonal providers with no special niche services to offer.

Gatwick in the UK: the convenience of hotels close to airports compensates for their high prices and impersonal atmosphere Tony Andrews

High occupancy rates can mean high prices for the traveller. Hotels at Heathrow have lifted their rates by 6.87 per cent over the past year, according to Hogg Robinson, to an average of £75.46 a night.

And airport hotels can be very crowded. While the growing occupancy rates delight the hearts of general managers and their parent companies, a negative aspect is the sheer numbers of people wanting to eat, drink, and check out at the same time.

"I can't see why people don't do a bit more research on the area near the airport and pick a nice country hotel in, say, Ascot, for their meeting," remarks one executive. "It doesn't take much more time to whizz down the M4 and get away from the airport hotels at Heathrow to something much nicer."

Although hotels provide links to the airport, these can sometimes be a problem, too. Courtesy coaches often wait for a decent number of passengers before they depart, and can be held up while dozens of people check out and aim for the same flight. And some, while offering a free pick-up, charge a fee for a trip to the terminal.

But the transport links are adequate, at least from the industry's point of view. "The M25 is the best thing that has ever happened to airport hotels," says Mr Cust. "If you've got an 8am flight at Gatwick, when do you leave if you want to avoid the rush-hour traffic jams? The night before, of course."

Conference hotels: by Roger Bray

Trips must be justifiable

Attendances are up but organisers must convince directors that such events have a genuine value

Recession has left its scars on the conference and incentive travel business. Business has returned since the slump accompanying the Gulf War, but participants have still to regain their confidence.

Nobody knows how much meetings, conferences and incentive trips organised by big companies are worth to the international hotel business. Mr Charles Blowfield, commercial director of the Meetings Industry Association, thinks it could be over $100bn, but admits this figure is plucked from the air. Figures from the US suggest it could by as high as $63bn in North America alone. Some observers believe current growth could be as high as 15 per cent a year.

Attendances are up. Delegates are staying longer at hotels and gatherings are more frequent, but groups are becoming smaller. Events are being organised at much shorter notice, making it more difficult for hotel managers to plan ahead. Lead times have fallen from between a year and six months to less than four months.

During the recession it was difficult for directors to sanction expenditure on glamorous international meetings while they were cutting staff. Even though the economic climate has now improved, events must still be seen to produce clear benefits.

Conferences have become more focused as a result. A good example was the recent Association of British Travel Agents convention in Sun City, South Africa. Tour operators, punch-drunk from a summer of discounting, were slimming their workforces. The turn-out was much lower than those seen at similar long-haul jamborees in the 1980s, the content of sessions pithier.

Incentive trips, an area dominated by five-star hotels, were also scaled down during the recession. Convincing companies that the trips can have a galvanising impact on sales forces remains tough.

That is not to say participants do not still enjoy themselves. Among this year's big winners of International Travel and Meetings Association (ITMA) awards were a scheme for Philips Lighting which took wholesalers on a snowy winter trip to Toronto's Deerhurst Resort, and another which took BMW sales managers to Africa.

Hotel groups expect conference organisers to demand ever more sophisticated technology, allowing delegates to react to presentations from the floor, for example, expressing preferences or casting votes at the touch of a button.

"In the old days," says Ms Sarah Webster, ITMA's executive director, "a guy used to stand up and lecture. Now new technology lets them gauge the opinions of the audience and show instant graphs on a screen."

Organisers are already able to explore meetings and conference rooms on their computer screens. Hilton International recently launched a CD-Rom which shows them detail such as the location of power points.

Perversely, increased reliance on PCs could be stimulating demand for human contact rather than diluting it, says Ms Webster: "There was always a fear that videoconferencing would reduce the need for people to leave their offices. While the area has expanded there is also an acknowledgement of how much can be achieved by a group talking together."

This year's hot conference destinations include Barcelona, Portugal, Prague and Budapest – and South Africa, though it remains short of suitable hotels. But following the breakdown of the IRA ceasefire, a new question mark hangs over London's prospects as a destination for incentive conferences and trips.

The Hyatt, Birmingham: real conferences have survived videoconferencing